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## Session 3, Part 2

### Commercial and Regulatory Response to Current Financial System Turbulence: Regulatory Responses to Financial Market Turbulence

**Ms Susan Bultitude**

Financial System Division, Australian Treasury

This paper draws on material presented by David Love at the 13<sup>th</sup> Melbourne Money and Finance Conference on Recent Developments in Australian Debt Markets in June 2008.

The comments in this paper are the personal views of the author and do not represent the official position of the Australian Government or the Department of the Treasury.

## **Introduction**

This paper examines how the Australian Government is responding to the challenges posed by the financial market turbulence of the past year.

There are two perspectives on regulatory responses to financial market turbulence. The first comes from the United States and to a lesser extent the European Union, where financial institutions were, and continue to be, directly affected by exposures to the sub-prime crisis and the ensuing credit market problems. The second perspective is that from countries like Australia where, to date, the effects have been largely indirect.

These different perspectives have resulted in more intense domestic responses where the problems have been felt most directly, particularly in the United States which has been the source of the turbulence. The focus of national responses in the US, the UK, and to a lesser extent, other European Union countries has been on liquidity and solvency threats to systemically important financial institutions and related real economy threats. There have also been macroeconomic policy responses in the affected jurisdictions. Management of current market problems is primarily focussed at the national level, and in particular on actions to address a largely US set of policy challenges in relation to asset price adjustments and poor credit quality fuelled by persistent global imbalances, and compounded by shortcomings in regulatory oversight arrangements.

At the time of writing, this management task has intensified, with a new series of threats to the solvency of major (predominantly) US financial institutions resulting in unprecedented levels of intervention by financial sector authorities. The US Government has intervened to support Freddie Mac and Fannie Mae and has provided emergency credit to American Insurance Group. At the same time, two of the largest US investment banks have exited the market, Merrill Lynch having been sold to Bank of America, and Lehman Brothers having filed for bankruptcy. This follows the sale of Bear Stearns to JP

Morgan earlier in the year. Most recently, the US Government has introduced Government-sponsored insurance for short-term money market funds, and announced plans to purchase up to US\$700 billion of illiquid and non-performing assets from the financial sector.

The Australian financial system has weathered the financial turbulence well, reflecting, among other things, its strong regulatory and prudential policy underpinnings and the underlying strength of the financial sector. Australia's financial institutions remain well-capitalised and profitable. Exposures to sub-prime related assets and distressed institutions are low relative to total assets and default rates on domestic assets, such as mortgage loans, remain low by historic and international standards.

In Australia, the main effects of the international financial market turmoil have included: higher funding costs for banks and other intermediaries; extremely limited activity in Australian securitisation markets; a fall in values and increase in volatility in share markets; several high profile corporate failures; and some financial asset write-down's. From a regulatory perspective, the situation has demanded close monitoring of financial institutions and the provision of system liquidity support at crucial times. The Government and financial sector regulators are also introducing measures to improve Australia's resilience to future financial sector shocks.

International responses to the market turbulence have primarily been driven by the G-7 tasking the Financial Stability Forum<sup>1</sup> (FSF) with examining and making recommendations. In this work there is close collaboration with the International Monetary Fund (IMF). The IMF has also played a significant role in analysing the causes of market turbulence. Its primary focus is directed to strengthening its role in crisis prevention.

Australia is well-placed in relation to some key recommendations emerging from these forums, and is making progress on outstanding issues. Australia is also making a significant contribution through international forums to implement the recommendations of the FSF. These actions are in addition to the measures already undertaken by Australian regulators domestically.

## **Regulatory Responses in Australia**

### *Financial System Liquidity*

The financial turbulence posed immediate liquidity concerns that were addressed by the Reserve Bank of Australia (RBA). The RBA took early action when problems appeared in mid-2007 to support financial institution liquidity, by expanding its money market

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<sup>1</sup> The FSF brings together senior representatives of 13 countries. Australia is represented by Governor of the Reserve Bank of Australia. Other international institutions represented in the FSF are the IMF, The World Bank, The Bank for International Settlements, the OECD, the International Accounting Standards Board (IASB), the International Organisation of Securities Commissions, the Basel Committee on Banking Supervision (BCBS) and the European Central Bank. The FSF is serviced by a secretariat housed at the Bank for International Settlements in Basel, Switzerland.

operations to inject liquidity into the financial system. It has since taken similar action on a number of occasions, often in concert with other central banks.

The RBA also made structural changes to its liquidity arrangements in September 2007 by broadening the categories of financial instruments that could be accepted as collateral for repurchase agreements. This action was taken in consultation with the Australian Prudential Regulation Authority (APRA), which assisted in the selection of the collateral. The expansion of accepted collateral provided banks with additional confidence that they can access central bank funding for important parts of their portfolios in the event that the market is unable to serve their needs, and sent an important signal to investors and other market participants.

The RBA balanced its open market operations towards longer-dated repurchase agreements and those agreements that have collateral provided by bank issued paper. It also substantially raised the level of balances that banks can hold in their Exchange Settlement Accounts.

#### Prudential Supervision

The turbulence has caused general market uncertainty about the soundness of financial institutions. Accordingly, APRA enhanced its monitoring of banks, building societies and credit unions (known collectively as authorised deposit-taking institutions - ADIs). In particular, APRA is closely monitoring ADIs' liquidity profiles and funding arrangements. This has meant more frequent contact, sometimes daily, with major banks to discuss their funding requirements and terms. APRA has closely analysed the funding plans of ADIs for 2008 and 2009, including major branches of foreign banks in Australia. It has also carefully examined both direct and indirect exposures of ADIs to sub-prime related assets and troubled financial institutions, and the adequacy of related provisioning.

APRA keeps in frequent contact with the RBA's market operations team to maintain a close understanding of the overall market liquidity situation and to discuss market developments with them. To assist with addressing liquidity issues, APRA allowed a marginally more flexible approach to ADIs holding paper issued by their related securitisation vehicles.

As a longer-term measure, APRA undertook an extensive review of its supervision of ADIs' liquidity risk management. Reflecting the findings of this review, APRA is seeking to strengthen ADIs' stress testing of their liquidity needs and contingency planning for bank 'runs', and increase its own information gathering and analysis activities. APRA is also working with industry to incorporate the draft principles for sound liquidity risk management and supervision developed by the Basel Committee on Banking Supervision (BCBS) into Australia's Basel II regime, which was adopted on 1 January 2008.

#### Monitoring and Surveillance

More generally, another immediate response to the turbulence was the increase in regulators' market surveillance activities. APRA, the RBA and the Australian Securities and Investments Commission (ASIC) increased liaison with market participants to ensure they are aware of market developments. Australia's financial regulators have been cooperating particularly closely throughout the turbulence and have been keeping the

Australian Government well informed. There has been a high level of exchange of information and coordination, primarily through the Council of Financial Regulators<sup>2</sup>.

#### Stability of Payment and Settlement Systems

In January 2008, a participant in the settlement system for trades in Australian equities had difficulties meeting its obligations, resulting in two instances of delayed settlements. While these did not cause any systemic problems, they prompted the RBA to examine whether some changes to the settlement processes could improve the system's resilience.

The RBA released its recommendations in May 2008. They include a range of measures to improve the timing of settlement and settlement instructions and to enhance parties' communication and decision-making arrangements. The RBA is pursuing these measures in consultation with the Australian Stock Exchange (ASX).

Other recommendations have already been introduced by the ASX, including an increase in the fees applying to failed trades and new arrangements for the forced close-out of trades remaining unsettled for five days.

#### Market Integrity

The initial share market downturn highlighted concerns with certain market trading practices relating to short selling, stock lending and margin lending practices. These practices have also been linked to market misconduct, sometimes involving hedge funds.

ASIC and the ASX commenced an extended surveillance exercise to investigate the incidence and impact of these market trading practices. As a result of this review, on 19 September ASIC announced a ban on naked short-selling and covered short-selling (the latter subject to limited authorised market-maker exemption). Similar action was taken in the US and the UK at the same time. The ban is an interim measure pending the introduction of legislation by the Australian Government that will improve disclosure arrangements for short-selling.

More generally, ASIC and the ASX have reminded market participants about their disclosure obligations and the prohibitions against the spreading of false rumours. The RBA has also encouraged the improved transparency of securities lending practices as part of its review of settlement processes for Australian equities trades.

#### Credit Rating Agency Review

The Minister for Superannuation and Corporate Law announced in May 2008 that he had asked the Treasury, working closely with ASIC, to review the regulation of credit rating agencies and research houses in Australia.

This review is being conducted in the context of the international concerns with the critical role credit rating agencies (CRAs) have played in the recent market problems. The review is also considering what adjustments might be required to Australia's regulatory settings for CRAs and will consider Australia's position in international

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<sup>2</sup> The Council of Financial Regulators consists of the agency heads of the Treasury, the Reserve Bank of Australia, the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

measures to better oversight CRAs. This will take into account the work being done internationally on this issue.

#### *Strengthening the Government Bond Market*

The Australian Government took steps in May 2008 to enhance the effective operation of Australia's credit markets by facilitating an increase in issuance of Commonwealth Government Securities (CGS). This will ensure that there is an adequate supply of these securities to meet demand, contributing to price discovery, liquidity and efficiency in Australia's bond and broader credit markets.

As part of the Government's action, changes are also being made to the securities lending facility operated by the Australian Office of Financial Management (AOFM) which manages the Australian Government's debt. The facility supports the CGS market by allowing market participants to access bonds that are in temporary short supply. This helps smooth operation of the market. Under the new arrangements, the facility can accept a wider range of assets as collateral, including similar securities to those accepted by the RBA in its market operations. The investment powers are also being widened to allow the AOFM to invest in a broader range of assets than under its current mandate.

#### *Crisis management arrangements*

On June 2 the Australian Government announced its proposals for enhanced arrangements for dealing with the failure of a financial institution in Australia. The proposals reflect the work done by the Council of Financial Regulators over a number of years, which take into account the lessons learnt in relevant overseas jurisdictions, such as the UK's experience with Northern Rock.

The proposals include a Financial Claims Scheme to give depositors in a failed ADI, and beneficiaries under an insurance contract with a failed general insurer, timely access to at least some of their funds following the failure of their financial institution. Unlike deposit insurance schemes, the Scheme will be post-funded, with the Government recovering the value of payments to beneficiaries in the liquidation of the failed financial institution and, if necessary, an industry levy. In relation to ADIs, the up-front payments under the Scheme would be capped at \$20,000 per depositor.

The proposals also include improved arrangements for dealing with the impending failure of a systemically important financial institution. These are designed for situations where the failure of an institution would have significant repercussions for the broader financial system and economy, should it be permitted to close. The proposals include improved powers to facilitate the transfer of the institution's business to a healthy institution and the removal of legal impediments to the timely recapitalisation of the failing institution.

Australia's financial sector regulators have also been working with the Reserve Bank of New Zealand and the New Zealand Treasury to develop a coordinated approach to dealing with the failure of an institution with significant operations in both countries. This reflects the fact that the operations of Australian banks account for around 90 per cent of the assets of the New Zealand banking system. This work is being progressed through the Trans-Tasman Council on Banking Supervision.

## **Australia's Implementation of International Regulatory Responses**

The FSF and the IMF are the main international engineers of regulatory responses to the market turbulence. The *Report of the Financial Stability Forum in Enhancing Market and Institutional Resilience* of April 2008 is a major part of this work program.

The report provides a broad agenda to be developed by regulators and standard setters such as IOSCO, International Accounting Standards Board (IASB) and Basel Committee on Banking Supervision (BCBS). This document sets out 67 specific policy recommendations in five key areas: Progress in implementing the FSF recommendations will be discussed at the G-7 Finance Ministers' meeting the IMF Annual Meetings in October 2008.

On 2 June 2008 the Treasurer announced the actions being undertaken by Australia to implement the FSF recommendations. These are summarised in the attachment to this paper. The key actions include:

- *Prudential oversight of capital, liquidity and risk management:* As noted above, Australia implemented Basel II in January 2008, and APRA is strengthening ADIs' liquidity requirements.
- *Transparency and valuation:* The Governor of the Reserve Bank has written to the internationally active banks in Australia encouraging them to strengthen their risk disclosure to the market in accordance with the FSF template. The RBA is monitoring the improvement in disclosure as the major banks release their annual reports.
- *Role and uses of credit ratings:* As noted above, the Australian Treasury and ASIC are currently reviewing the Australian regulation of credit rating agencies and are consulting with stakeholders as part of the review. Australia is supportive of the new International Organisation of Securities Commission's code for credit rating agencies.
- *Authorities' responsiveness to risks:* The Australian and New Zealand authorities are continuing to work together to strengthen cross-border co-operation. APRA and the Reserve Bank of New Zealand already maintain intensive formal and informal consultation relationships on the four banking groups which are systemically important in both countries.
- *Dealing with stress in the financial system:* As noted above, the Australian Government has announced its intention to implement a Financial Claims Scheme for depositors and insurance policyholders to provide timely access to at least some of their funds in the event of a failure. The legislation being drafted to introduce this scheme will also improve powers to deal with distressed institutions, including powers to facilitate the recapitalisation of failing entities.

In summary, Australia has already implemented some key recommendations and is making progress on those outstanding. In addition, Australia is contributing to the work of relevant international forums, which will be used as a reference in considering further measures which should be adopted into national regulation in Australia and other countries. Finally, Australia is working to strengthen the capacity of the global financial architecture to respond to future threats to financial stability, such as by advocating improvements to international forums' technical capabilities and greater engagement across a wider range of economies.

## **Conclusion**

The Australian financial system regulatory framework has demonstrated its effectiveness throughout the turbulence. Australia's financial regulators have maintained confidence in our financial markets by taking judicious action at appropriate times. They have also embarked on longer-term reforms, both independently and as part of international initiatives, to improve the operation of the financial system going forward, and strengthen its resilience to future shocks.

## **ATTACHMENTS:**

### **Actions being undertaken by Australia to address FSF Recommendations**

#### *Abbreviations:*

AASB – Australian Accounting Standards Board

ADI – Authorised Deposit-Taking Institution

APRA – Australian Prudential Regulation Authority

ASIC – Australian Securities and Investments Commission

AUASB – Auditing and Assurance Standards Board

BCBS – Basel Committee on Banking Supervision

CRA – Credit Rating Agencies

FCS – Financial Claims Scheme

FRC – Financial Reporting Council

FSAP – Financial Sector Assessment Program

FSF- Financial Stability Forum

IAASB – International Auditing and Assurance Standards Board

IASB – International Accounting Standards Board

IOSCO – International Organisation of Securities Commissions

MIS – Managed Investment Scheme

OTC – Over-the Counter

RBA – Reserve Bank of Australia

## Actions being undertaken by Australia to address FSF Recommendations<sup>3</sup>

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<b>STRENGTHENED PRUDENTIAL OVERSIGHT OF CAPITAL, LIQUIDITY AND RISK MANAGEMENT</b>			
<b>Capital requirements</b>			
<i>The Basel II capital framework needs timely implementation. Supervisors will assess the impact of the implementation.</i>	<p>The Basel II framework was implemented in Australia from 1/1/2008.</p> <p>APRA will be assessing the impact of Basel II in Australia on an on-going basis and, where shortcomings in capital requirements are obvious, moving to impose necessary additional requirements via Pillar 2.</p>	APRA	Implemented
<i>Supervisors will strengthen the Basel II capital treatment of structured credit and securitisation activities.</i>	<p>The Government supports this principle recommendation.</p> <p>APRA will continue its involvement with the BCBS and consider the capital requirements for such instruments: as necessary, APRA will modify prudential standards and capital requirements.</p> <p>Additionally, ASIC will examine the current requirements for securities firms and take note of IOSCO recommendations.</p>	APRA / ASIC	2008
<i>Supervisors will continue to update the risk parameters and other provisions of the Basel II framework as needed.</i>	<p>The Government supports this principle recommendation.</p> <p>APRA will continue its involvement with the BCBS and consider the capital requirements for such instruments: as necessary, APRA modify prudential standards and capital requirements.</p>	APRA	2008-

<sup>3</sup> In the third column, the timeline for those recommendations for which work is expected to be continued over time is represented by adding a dash (-) after the date when the implementation is expected to start.

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

<b>Issue &amp; FSF Recommendation</b>	<b>Australian Action</b>	<b>Australian Agency</b>	<b>Timing</b>
<i>Authorities should ensure that the capital buffers for monoline insurers and financial guarantors are commensurate with their role in the financial system.</i>	<p>The Government supports this principle recommendation.</p> <p>APRA has significantly increased the capital requirements for lenders mortgage insurers in recent years and continues to assess the appropriateness of capital requirements.</p>	APRA	2008-
<b>Liquidity management</b>			
<i>Supervisors will issue for consultation sound practice guidance on the management and supervision of liquidity by July 2008.</i>	<p>APRA is currently participating in the development of the BCBS consultation document. APRA will be strengthening its ADI liquidity requirements and will determine if any additional changes are necessary following the outcomes of the BCBS consultation process.</p> <p>APRA and RBA are involved in BCBS and FSF work on the further development of guidance on liquidity for cross-border banks.</p>	Treasury / RBA / APRA	2008-
<b>Supervisory oversight of risk management, including of off-balance sheet entities</b>			
<i>Supervisors will use Pillar 2 to strengthen banks' risk management practices, to sharpen banks' control of tail risks and mitigate the build-up of excessive exposures and risk concentrations.</i>	<p>The Government supports this principle recommendation.</p> <p>APRA is already moving to implement Pillar 2 requirements based on risk profiles of individual ADIs. APRA will continue to share experiences with the BCBS.</p>	APRA	2008-09
<i>Relevant regulators should strengthen the requirements for institutional investors' processes for investment in structured products.</i>	<p>The Government is requesting APRA and ASIC to examine this recommendation and report to it on whether a combination of Australian regulation and industry standards already provide for sound regulation and industry practice in this area.</p>	APRA – Prudentially regulated entities incl Super funds ASIC - MIS	

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<p><i>The financial industry should align compensation models with long-term, firm-wide profitability. Regulators and supervisors should work with market participants to mitigate the risks arising from inappropriate incentive structures.</i></p>	<p>Market participants are subject to risk and conflict management obligations at law. This requires consideration of staff remuneration and incentive arrangements so they don't encourage disproportionate risk-taking and insufficient regard to longer-term risks.</p> <p>Australia also has legislative disclosure requirements for listed companies and other reporting companies about the remuneration arrangements of senior management personnel. These requirements are complemented by corporate governance executive remuneration and risk management principles issued by the Australian Securities Exchange Corporate Governance Council.</p>	ASIC	2008-
<p><b><i>Operational infrastructure for OTC derivatives</i></b></p>			
<p><i>Market participants should act promptly to ensure that the settlement, legal and operational infrastructure underlying OTC derivatives markets is sound.</i></p>	<p>The combination of Australian regulation and industry standards currently provide for a robust framework for the reliable operation of OTC markets. The Government supports the financial industry working to increase the reliability of these markets.</p> <p>Australia supports market participants to working to improve standard credit derivative trade documentation</p> <p>Australia supports market participants working to automate and set rigorous OTC derivative trade related standards.</p>	Industry under ASIC supervision	2008
<p><b>ENHANCING TRANSPARENCY AND VALUATION</b></p>			
<p><b><i>Risk disclosures by market participants</i></b></p>			

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<p><i>Financial institutions should strengthen their risk disclosures and supervisors should improve risk disclosure requirements under Pillar 3 of Basel II.</i></p>	<p>Australia supports the financial industry adopting the FSF's risk disclosure recommendation.</p> <p>Australia supports work by market participants and auditors to provide relevant market related risk disclosures</p> <p>Disclosure rules under Pillar 3 of the Basel II framework were introduced from 1 January 2008. APRA will review the current requirements as part of its assessment of Basel II in Australia.</p> <p>The RBA Governor has written to internationally active Australian Authorised Deposit-taking Institutions encouraging them to strengthen their risk disclosure to the market, in accordance with the relevant FSF template, where they need to do so.</p>	<p>Industry</p> <p>AUASB / FRC</p> <p>APRA</p>	<p>2008</p> <p>2008-</p> <p>2009</p>
<p><i>Accounting and disclosure standards for off-balance sheet entities</i></p>	<p>Australia notes that the IASB is aware of the importance of speedily responding to these issues.</p> <p>Australia, through its representation on the International Accounting Standards Committee Foundation, will continue to support the IASB's work in this area.</p>	<p>AASB / FRC</p>	<p>2008-09</p>

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<b>Valuation</b>			
<p><i>International standard setters should enhance accounting, disclosure and audit guidance for valuations. Firms' valuation processes and related supervisory guidance should be enhanced.</i></p>	<p>Australia supports this principle recommendation.</p> <p>Australia notes that the IASB is currently working on this issue. Australia, through its representation on the International Accounting Standards Committee Foundation, will continue to support the IASB's work in this area.</p> <p>Australia also notes that the IAASB has established a task force on fair value auditing guidance to address some of the valuation difficulties highlighted by the recent volatility on global financial markets. Australia, through the Australian Auditing and Assurance Standards Board will actively engage in the work being progressed by the IAASB.</p> <p>APRA is engaged in work with the BCBS regarding the supervisory assessment of banks' valuation processes. APRA will consider the guidance issued by the BCBS and, as necessary, modify prudential standards and capital requirements.</p>	<p>Industry in consultation with APRA and ASIC</p> <p>AASB / FRC</p>	<p>2008-09</p>
<b>Transparency in securitisation processes and markets</b>			
<p><i>Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.</i></p>	<p>Australia supports transparency to investors (whether wholesale or retail) about the quality of the underlying assets of securitised products. The Corporations Act requires prospectuses to contain full risk disclosure and that the relevant disclosures in wholesale offer documents not be misleading or deceptive.</p> <p>Australian law through the Corporations Act requires a high level of information about risk characteristics when a regulated person offers to issue a financial product to a retail client. Public issuers are also subject to continuous disclosure regime obligations.</p> <p>Australia supports wholesale market participants providing a high level of information on risk characteristics to each other. The Corporations Act prohibits such disclosures from being misleading or deceptive</p> <p>The Government supports industry looking at ways to improve the post-trade transparency of credit instruments.</p>	<p>Industry / Treasury / ASIC / ASX</p>	<p>2008-</p>

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<b>CHANGES IN THE ROLE AND USES OF CREDIT RATINGS</b>			
<b>Quality of the rating process</b>			
<i>CRAs should improve the quality of the rating process and manage conflicts of interest in rating structured products.</i>	Treasury and ASIC are examining and will report on the role and regulation of credit rating agencies with reference to the FSF's CRA recommendations.	CRAs Treasury / ASIC	2008
<b>Differentiated ratings and expanded information on structured products</b>			
<i>CRAs should differentiate ratings on structured finance from those on bonds, and expand the initial and ongoing information provided on the risk characteristics of structured products.</i>	Treasury and ASIC are examining and will report on the role and regulation of credit rating agencies with reference to the FSF's CRA recommendations.	CRAs Treasury / ASIC	2008
<b>CRA assessment of underlying data quality</b>			
<i>CRAs should enhance their review of the quality of the data input and of the due diligence performed on underlying assets by originators, arrangers and issuers involved in structured products.</i>	Treasury and ASIC are examining and will report on the role and regulation of credit rating agencies with reference to the FSF's CRA recommendations.	CRAs Treasury / ASIC	2008
<b>Uses of ratings by investors and regulators</b>			
<i>Investors should address their over-reliance on ratings. Investor associations should consider developing standards of due diligence and credit analysis for investing in structured products.</i>  <i>Authorities will review their use of ratings in the regulatory and supervisory framework.</i>	Treasury and ASIC are examining and will report on the role and regulation of credit rating agencies with reference to the FSF's CRA recommendations.	Industry Treasury / ASIC	2008

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<b>STRENGTHENING THE AUTHORITIES' RESPONSIVENESS TO RISKS</b>			
<i>Translating risk analysis into action</i>			
<i>Supervisors, regulators and central banks – individually and collectively – will take additional steps to more effectively translate their risk analysis into actions that mitigate those risks.</i>	<p>The Government will continue to ensure that regulators have appropriate resources to maintain and, as necessary, strengthen their supervisory capabilities.</p> <p>Additionally, Australia supports efforts to improve the role and action played by the FSF and IMF in international financial surveillance.</p>	APRA / ASIC / RBA / Treasury	2008
<i>Improving information exchange and cooperation among authorities</i>			
<i>Authorities' exchange of information and cooperation in the development of good practices will be improved at national and international levels.</i>	<p>Australia supports these actions. APRA, ASIC and the RBA already actively cooperate with their foreign regulatory peers.</p> <p>The Government is requesting that Australia's regulators relevantly participate in any colleges established relating to large global financial institutions.</p> <p>APRA has Memoranda of Understanding with a number of overseas regulators and as part of these processes has already participated in supervisory colleges. APRA will look to further its participation in such arrangements where opportunities present themselves.</p> <p>At Australian level, the Council of Financial Regulators and bilateral regulatory cooperation arrangements already provide mechanisms for quick supervisory responsiveness.</p> <p>Australia supports improvements at the international level to improve supervisory responsiveness and will work with other countries on this issue.</p>	APRA / ASIC / RBA	2008-

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<b>Enhancing international bodies' policy work</b>			
<i>International bodies will enhance the speed, prioritisation and coordination of their policy development work.</i>	<p>Australian regulators already participate actively in international committees and Australia's adherence to international standards has recently been tested by the FSAP process</p> <p>Australia also considers that finance ministry policy officials should also participate more actively in efforts to improve policy coordination.</p> <p>Australia supports enhanced cooperation between the IMF and FSF with an increased focus on identifying and reporting on threats to the global financial system and the global economy – an early warning system for global financial risks.</p>	Council of Financial Regulators / Treasury	2008
<b>ROBUST ARRANGEMENTS FOR DEALING WITH STRESS IN THE FINANCIAL SYSTEM</b>			
<b>Central bank operations</b>			
<i>Central bank operational frameworks should be sufficiently flexible in terms of potential frequency and maturity of operations, available instruments, and the range of counterparties and collateral, to deal with extraordinary situations.</i>	<p>The operational framework for monetary policy in Australia already accommodates such flexibility. The RBA has a flexible framework which has allowed it to inject a significant amount of funds into the market in response to increased demand in recent times.</p> <p>Consideration will be given to whether further mechanisms are required.</p>	RBA / Treasury	2008-
<b>Arrangements for dealing with weak banks</b>			
<i>Authorities will clarify and strengthen national and cross-border arrangements for dealing with weak banks.</i>	<p>Legislation will be introduced to improve statutory management powers, facilitate the transfer of assets and liabilities between institutions, facilitate recapitalisation, and harmonise court injunctions powers across the prudential Acts.</p> <p>A Memorandum of Understanding between regulators and protocols to guide the management of a failing institution is being developed to ensure clarity in the division of responsibilities between national authorities.</p>	Treasury / Council of Financial Regulators	2008

**Attachment – Actions being undertaken by Australia to address FSF Recommendations**

Issue & FSF Recommendation	Australian Action	Australian Agency	Timing
<p><i>Authorities will review and, where necessary, strengthen deposit insurance arrangements.</i></p>	<p>To ensure appropriate measures are in place to deal with any financial system failure, legislation will be introduced to establish a Financial Claims Scheme (FCS) to provide timely access to funds for depositors and general insurance policyholders in the event a financial institution fails.</p> <p>The FCS will give depositors and policyholders timely access to their funds in the event of a failure.</p> <p>Funding for the FCS will be provided by Government in the first instance, with funding recovered through the subsequent liquidation of the failed institution and, if necessary, a levy on surviving institutions.</p> <p>The FCS will be administered by the Australian Prudential Regulation Authority (APRA) and would be activated by the Treasurer if required.</p> <p>These changes will move Australia towards the explicit deposit protection schemes being recommended by the Financial Stability Forum. Australia's arrangements will be considered against agreed international principles when those principles have been settled.</p>	<p>Treasury / Council of Financial Regulators</p>	<p>2008-</p>
<p><i>Authorities will strengthen cross-border cooperation in crisis management.</i></p>	<p>Australia supports participation in international sharing of experiences and efforts to strengthen cross-border cooperation.</p> <p>Australia's largest and most direct cross-border involvement is with New Zealand. The Trans-Tasman Council on Banking Supervision was established in February 2005 to, inter alia, promote and review trans-Tasman crisis response preparedness.</p>	<p>Treasury / Council of Financial Regulators</p>	