

## Background to the Inquiry

Much of the regulatory framework for the Australian financial system has been established over the 16 years since the Australian Financial System Inquiry (the Campbell Committee) reported in 1981. The financial system has been transformed over this period and continues to undergo sweeping change. Against this background, the Government decided in 1996 to establish a new Inquiry to review these developments, to consider the factors likely to drive further change, and to make recommendations for possible further improvements to the regulatory arrangements.

## Terms of Reference

The Treasurer, the Hon Peter Costello MP, established the Financial System Inquiry in June 1996 with the following mission:

*The Inquiry is charged with providing a stocktake of the results arising from the financial deregulation of the Australian financial system since the early 1980s. The forces driving further change will be analysed, in particular, technological development. Recommendations will be made on the nature of the regulatory arrangements that will best ensure an efficient, responsive, competitive and flexible financial system to underpin stronger economic performance, consistent with financial stability, prudence, integrity and fairness.*

The Inquiry was asked to report by 31 March 1997.

The Inquiry's full Terms of Reference are reproduced in Appendix A.

## **Approach to the Task**

To provide substantial opportunity for public participation and to gain information and views from those involved in the finance industry, the Inquiry approached its task by:

- inviting submissions from the public in June 1996;
- publishing a Discussion Paper in November 1996, which set out the issues to be addressed and invited supplementary submissions;
- holding public consultations in all mainland capital cities during December 1996;
- meeting with experts, finance industry participants, regulatory agencies and consumers, both in Australia and overseas;
- making information about the Inquiry publicly available on its Internet home page <http://www.treasury.gov.au/fsi>; and
- stimulating public debate through participation in a range of conferences and seminars.

## **The Final Report**

### **Scope**

In accordance with its Terms of Reference, the Inquiry has confined its attention to the main fields of financial regulation, including those which aim to improve market conduct, disclosure, safety, stability, competition and competitiveness.

The Inquiry has not made specific recommendations on the conduct of monetary policy, retirement incomes policies, taxation policies, or the regulation of the general operation of companies through corporations law. However, these issues have been taken into account in formulating recommendations on other financial regulatory arrangements and some potential links or conflicts have been noted for possible future study.

For reasons of efficiency, the Final Report does not repeat most of the material provided in the Discussion Paper released in November 1996. In particular, reference should be made to the Discussion Paper for:

- a more complete description of the existing regulatory arrangements for the Australian financial system;
- summaries of the views put to the Inquiry in the first round of submissions; and
- a more complete description of the alternative options for changes to current regulatory arrangements.

## Structure

The Report's *Overview* (*The Financial System: Towards 2010*) summarises the Inquiry's vision for the future, the Inquiry's regulatory philosophy and a blueprint for proposed regulatory reform. This blueprint is followed by a full list of the Inquiry's recommendations.

The remainder of the Final Report is structured in three parts.

- *Part One: Forces for Change* canvasses the major factors driving change in the financial system, including changing customer needs, new skills and technologies, and regulatory change. Part One also describes consequent changes in the conduct and structure of financial markets and businesses.
- *Part Two: Key Issues in Regulatory Reform* sets out the philosophy of financial regulation adopted by the Committee and examines the costs of financial activity in Australia. Part Two describes a broad range of reforms aimed at improving financial system efficiency. It presents the Inquiry's recommendations for financial regulation, including arrangements for market integrity, consumer protection, safety, stability and competition.
- *Part Three: Stocktake of Financial Deregulation* provides a history of the changes in financial regulation in Australia and reports on the results of the deregulation flowing from the Campbell Committee. It examines the impact of financial deregulation on competition,

efficiency, international competitiveness, and product choice and quality in the Australian financial system.

Appendix D contains the Inquiry's review of financial system legislation required under the Competition Principles Agreement.

## **Acknowledgements**

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