

INTERVIEW WITH KAREN TSO
CNBC ASIA 'SQUAWK AUSTRALIA'

25 AUGUST 2009

8:00AM

SUBJECTS: ASIC Regulation of ASX, Economic Outlook, Relations with China, Foreign Investment

KAREN TSO:

Yesterday the focus for the local market was the news that the Australian Securities and Investments Commission would take over the supervision of the domestic market. The move is aimed at improving financial regulation in Australia.

Today our guest host is Nick Sherry, Assistant Treasurer of Australia. Welcome to the program. Good to have you with us today.

NICK SHERRY:

Yeah, good morning, Karen. Good morning to your viewers.

KAREN TSO:

Particularly timing, given what happened yesterday. Why the decision to move this role as supervisor of the markets away from the Stock Exchange and to ASIC?

NICK SHERRY:

I - well this issue's been under discussion for some time. What we have in Australia is the ASX is a trading platform, it's a monopoly, now privately owned trading platform and it had retained the powers of supervision. And the Government took the view that as part of modernising our financial system and updating it, the supervisory side of the ASX's responsibilities should move to the regulator, in this case ASIC. And that's an effective modernisation of regulation supervision of our markets.

KAREN TSO:

Did you perceive that there were conflicts of interest for the ASX, being both operator and regulator?

NICK SHERRY:

I think there was a perception, but I have - in saying that I have to say, I think in the current circumstances we've seen certainly over the last year, the ASX have done, you know, a very solid job and responsible job in handling its responsibilities.

But 2009 is very different from 1899.

KAREN TSO:

Yeah, interesting too to cast back and think about who is now the boss of ASIC, being Tony D'Aloisio, who used to head up the Stock Exchange, so a fair bit of experience in that regulator role anyway moving across to ASIC. Did that influence your decision at all?

NICK SHERRY:

Well, I think there is some irony, as you've pointed out, but I think what it does highlight is that ASIC is headed by Tony, he used to head the ASX. ASIC has gone through a significant internal reorganisation in the last 18 months under Tony's leadership, a significant change in management. The Government created - or appointed - extra commissioners, if you like, to assist in enhancing and strengthening the general supervision of our markets in Australia.

So in terms of the timing, ASIC's had - itself had an essential modernisation and so shifting supervisory activities from the ASX to effectively the corporate cop, if you like, will improve oversight.

KAREN TSO:

Mmm. I did notice a few please explains issued by the Stock Exchange recency[sic], so maybe they saw it coming [laughs].

Well, stick around with us. Good to have you on the program, look forward to continuing our conversation throughout the show.

NICK SHERRY:

Thanks.

[Unrelated items - Wall Street stocks and wrap by Julia Boorstin, commodities with Sri Jegarajah]

KAREN TSO:

Assistant Treasurer, we've seen this market rally, it's been quite extraordinary in fact, but a few people have really forgotten the lessons of the past and what really panned out on global financial markets. Has

there been still not enough pressure in the public arena to try and change market regulations and be per... to - seen to be doing something about what was a runaway train at one point?

NICK SHERRY:

Well there's still important work going on internationally through the G20. I mean, in the context of Australia, I mean, the decision we've just discussed earlier was part of a modernisation if you like - and I should also indicate, in Australia ASIC's been given the responsibility of all of the financial regulation and supervision that our states currently have responsibility for, including mortgage broking, which we know was one of the critical problems in the United States; not a problem for us here, but we saw the - and learnt some lessons from what occurred in the United States.

So - but a lot of this work's happening globally. I think for the first time there's a much greater degree of coordination about what is happening around the world.

KAREN TSO:

Mmm hmm. Okay, well stick around, good to have you with us.

[Unrelated items - advertisements and profit results]

KAREN TSO:

Well joining us now, Kevin Curran, head of dealing at Fosters Stockbroking, as well as Nick Sherry, Assistant Treasurer of Australia who is our guest host for the whole hour.

What did you think of that swing?

NICK SHERRY:

Oh, I wish I had some time to get on the golf course myself. I wasn't a bad player when I was a younger person, but I'm a once-a-year golfer now and it shows [laughs].

KAREN TSO:

Yeah, yeah, you need to get out there more often than that, but good to see you doing the country proud anyway.

[Laughter]

[Unrelated items - question to Kevin Curran and Curran's response]

KEVIN CURRAN:

Maybe I can bring in Nick here and he can sort of - I don't know if you see if there's any further deregulation that's going to happen over the next two years of inside the actual markets?

NICK SHERRY:

Look, I think as pointed out yesterday, this is an important step before the issue of market competition is considered. There are a number of applications for competitive platforms to the ASX. Now, whenever that decision is finalised, that obviously, in a more competitive market, has some ramifications for the ASX.

Now that won't happen obviously until these changes that have been announced, consultation; third quarter of next year.

So, the full extent of the issues the ASX has to respond to will be known then. Although the ASX itself, I have to say, is a very good at adjusting its business model to keep up with the modern world having watched them operate and respond in the financial crisis over the last 18 months.

SRI JEGARAJAH:

Assistant Treasurer, do you think the Government is approaching the issue of regulation in the financial markets with a light touch? Because I guess the concern in the markets and amongst the investors after the crisis is over-regulation by the Government.

Where do you strike the balance, and do you think the Government has done that?

NICK SHERRY:

Well I think, importantly in Australia we haven't had the degree of crisis that's occurred in other markets.

The main change in terms of regulation and supervision in Australia has been the transfer of supervision regulation from our states; some 20 per cent of the markets, margin lending, trustee companies, mortgage broking, issues like that, areas like that to the Commonwealth, specifically to ASIC. ASIC itself has had two new commissioners.

We've seen that approach as a government as an essential modernisation bringing the regulatory framework into the 21st Century that probably would have occurred without the financial crisis, but we've learnt some important lessons, say for example, in mortgage broking and what

happened in the United States, without fortunately having to go through some of the fairly catastrophic circumstances of the US.

[Unrelated items - market question to Curran and Curran's response]

KAREN TSO:

Minister, just quickly before we go to a break. Are you worried about market speculators out there at the moment?

NICK SHERRY:

Look, I don't want to comment on markets specifically. The level of recovery in the markets has generally been very, very solid over the last four to five months, but I think that does reflect, in part, the fact that Australia has cushioned itself pretty well from the international financial economic crisis. And the Australian economy is only one of - is the only one of 30 that hasn't gone into recession.

KAREN TSO:

Many brokers and economists certainly would be agreeing with you out there at the moment [laughs]

[Unrelated items - advertisements, questions to Kathy Lien about forex]

KAREN TSO:

Just quickly, Kathy, I just want to squeeze in a quick comment here from the minister with thoughts on the recovery process, where we're at.

NICK SHERRY:

Well, I think internationally I've still got some worries. You know, I'm cautiously optimistic. But if we look at the recovery in say Japan and some of the European countries, signs are good, but I'm still concerned about the US, the rate of recovery, the job losses there, how that impacts into say China and Asia and then, in turn, how that impacts on Australia.

So I'm cautiously optimistic but we're certainly not out of the woods yet, that's my overall summation.

[Unrelated items - advertisements, news, market update]

KAREN TSO:

We've been talking a little bit this morning about the recovery story. Key, in part, to this has been China. What's your view on whether China is

really still in the de-stocking process or whether there really is real demand going on in China right now.

NICK SHERRY:

Well, I think there is real demand going on in China but obviously, critically, the issue I referred to earlier is what will be the impact of European and US, North American consumption demand into China. And I think that's certainly a worry at the present time - the pace of recovery, how that will occur, and how quickly that will occur in Europe and in US - because for Australia they're critical in terms of China, and China is obviously critical, along with India and Indonesia and other Asian economies to Australia particularly our resources sector.

KAREN TSO:

You raised the resources sector and the critical nature of that relationship, let's talk about where it's at because it keeps making headlines that Australia, and China relations are almost in tatters. Do you think we need to have the kid gloves on at the moment and really try and repair this relationship?

NICK SHERRY:

No look, I wouldn't accept that level of criticism. But I think, clearly, we look at what the announcement last week in respect to the investments by China into Australia. That was great news. That obviously is of great help to the Australian economy and jobs ultimately.

Look, there will always be issues with any relationship, particularly one as important as China.

And Kevin Rudd, he speaks Chinese, he's had significant experience. I think he's well able to handle any of the challenges and issues that do arise from time to time.

SRI JEGARAJAH:

So would you characterise the relationship as business as usual, Assistant Treasurer, between China and Australia right now, despite the Rio detentions?

NICK SHERRY:

Look, I think it's a very good business relationship and we saw clear evidence of that yesterday. And I think there's an unfortunate level of criticism, which is a little misinformed. I noticed yesterday a critique that Chinese tourist numbers were down to Australia but they were actually

down from the rest of Asia to a greater degree. And, I mean, when you've got a world economic crisis and worries about flu, that does impact on tourism numbers into Australia in particular.

So, I mean, I think overall the relationship with China, whilst there are always challenges and issues, the underlying strength and the mutual compatibility between the two economies in terms of resources and demand, I think we're in good shape.

KAREN TSO:

Well, travel certainly is a tricky one to gauge but what we do know is that China does have concerns about Australia's dominance in the iron ore space, particularly when it comes to the likes of Rio Tinto and BHP having some form of an alliance in the Pilbara. Is there something that Australia should be considering in this area? Should we revisit this idea of the two mining giants joining forces in the Pilbara?

NICK SHERRY:

Well, that's a private commercial decision. I mean, the operations of...

KAREN TSO:

Well, it is a private commercial decision but what if it affects the national interest because China is that annoyed with the stance that Australia is taking on a major resource that potentially, as they said, could be anticompetitive?

NICK SHERRY:

But this is a capitalist private sector economy and the decisions made by those who own and mine our resources, that's their decision. We have a set of foreign investment provisions which clearly take into account investments in the national interest. And what we do know, as clearly evidenced last week, is that China does want to invest in Australia. And I have to say so does much of the rest of the world want to invest in Australia. And that's a good thing. It's a good thing for our economy and it's a good thing for jobs.

SRI JEGARAJAH:

Assistant Treasurer, are there any expectations on your behalf that the foreign ownership restrictions on strategic asset like in the commodities sector could be revised and updated and possibly changed to make them a little bit more tighter in response to this environment with China?

NICK SHERRY:

No, I don't see that happening. I mean, Wayne Swan as Treasurer recently updated the foreign investment - the minimum level from \$100 million to \$219 million, I think is the precise figure. He announced updated national interest requirements last year in terms of investment.

Australia needs foreign investment. It's good for our economy, it's good for jobs. And the US is still the predominant, the largest investor into the Australian economy, followed by the UK. And the investment we're seeing from China is a good thing and it should be kept in perspective. I mean, clearly, China does see that Australia is a good place to invest, for a whole range of reasons, aside from the resources. Our economy has done relatively well compared to the rest of the world. Good legal system. There are a number of advantages to investing in Australia and that's a great thing.

So I don't see, nor is the Government seeing, any need other than the changes we've announced - the updates - to go any further.

KAREN TSO:

Let me give you a tough one. Do you think Rio Tinto has put Australia in a difficult position now?

NICK SHERRY:

Oh look, I can make general observations but specific observations about corporate behaviour is not one for me to comment on.

KAREN TSO:

[Laughs] Okay, nice dive there.

[Unrelated items - market update, advertisements, news, question to John Licata, chief investment strategist, Blue Phoenix and Licata's response, comments from Jegarajah]

KAREN TSO:

While we're talking about coal, I want to bring Nick Sherry in here, because coal has certainly attracted a lot of foreign investment and we were just talking offline before and you were saying you do actually approve a lot of the deals worth up to \$200 million.

Have we seen much in the way of China trying to play in this \$200 million less space, or is it really quite diverse? Is it Japan as well? Is it North America?

NICK SHERRY:

It's very diverse. I mean, I don't know the figures of 20 years ago, and clearly China 20 years ago wasn't a major participant, but the biggest single investor is still the United States followed by the UK. And there's a lot of focus on China and focus - and China is important to us.

But I think we have to put it into perspective. There's a lot of interest from right around the world in investing in Australia, and in particularly resources.

KAREN TSO:

So in some ways we might be able to play in the China strike(*)?

NICK SHERRY:

Well I think the debate about China reminds me somewhat of the debate about Japan back in the 60's and 70's, and China's a significant new player, but I think it needs to be put in perspective.

KAREN TSO:

Okay, well thanks for those words this morning.

[Unrelated items - advertisements, profit results, discussion with Juliana Roadley, equity market analyst, CommSec]

KAREN TSO:

Okay. Before the market gets too relieved, Assistant Treasurer, is it a precursor to more competition in the space? We do know that three rival market operators have applied to set up in competition to the ASX.

NICK SHERRY:

Well, moving the supervision to ASIC will take about nine months. I mean, this is not going to take effect until the third quarter of next year. There's a lot of legislative detail and consultation to sort out. But once that has occurred, the Treasurer and Minister Bowen yesterday indicated that the issue of competitive trading platforms could be considered at that point.

[Unrelated items - discussion of Fosters' results, Woolworths' acquisition of Danks]

KAREN TSO:

While we're talking about consumer stocks, I want to ask you about employment, because this is certainly key to a lot of the numbers coming

out this week, whether consumers really want to spend money at the moment, whether they feel comfortable. What's your view on how high the unemployment rate will go? And does it look any better right now as you see, the economy, you know, show some resilience?

NICK SHERRY:

Well, the Australian economy has been cushioned and clearly doing better than other comparable economies. But we're still predicting 8.5 per cent unemployment. We're currently at 5.8 and...

KAREN TSO:

That's a long way off though [laughs].

NICK SHERRY:

Well - but recall the debate when the budget was released back in May, the Government and Treasurer were accused of being too optimistic.

KAREN TSO:

True, and I was sitting there at the time [laughs].

NICK SHERRY:

Now we're accused of not being pessimistic - we were accused of being too pessimistic, now we should be more optimistic - that has been a big change.

But clearly the stimulus package has had an important impact in cushioning the Australian economy from the worst of the recession. And that's been clearly reflected in consumer spending, even car sales - I know - not - the figures were down yesterday, but overall car sales, housing, consumer spending, compared to other countries, we haven't fallen off a cliff.

KAREN TSO:

Mmm.

NICK SHERRY:

And I think that illustrates, well illustrates, the success of the stimulus here.

KAREN TSO:

Mmm. Juliana?

JULIANA ROADLEY:

Yeah, I'd agree. I think the short-term stimulus was a great boost. It did what it was supposed to do; it saved us from going into recession, so that added confidence back into the markets, into the stock market, into our economy; puts us in focus around the globe, because everyone says, oh look, Australia didn't go into recession. It does create a lot of momentum and it keeps people out there spending.

KAREN TSO:

Thank you very much for joining us. Juliana Roadley from CommSec and we must extend our appreciation to Assistant Treasurer Nick Sherry who has spent the entire morning with us here on the set as guest host for the hour. We do look forward to having you back with us here.