

ADDRESS TO AUSTRALASIAN COMPLIANCE INSTITUTE 13TH ANNUAL CONFERENCE

HILTON HOTEL, SYDNEY

13 OCTOBER 2009

Good morning and thank you for inviting me to open the Australasian Compliance Institute's 13th Annual Conference.

I appreciate the important work the Institute is doing to highlight the importance of compliance, particularly in the face of the global recession and the impact it has had on all aspects of corporate governance, accounting and compliance.

I also value the Institute's focus on maintaining high standards of skill, expertise and ethics among compliance professionals.

My thanks also go to your Chief Executive Officer, Martin Tolar, for his contribution to the work of the Financial Services Working Group.

The FSWG is doing a sterling job of developing product disclosure documents which will be more accessible and easy-to-read for consumers.

Their work has enormous potential to create substantial savings for the financial services industry by reducing the compliance-related costs of printing and distributing lengthy PDS documents.

Importance of regulation

The theme for your conference is "Doing More With Less".

The global financial crisis and the following global recession mean that the sentiments contained in this slogan have become a necessity for government, for industry and for communities across Australia.

At this critical time, it is more important than ever to examine the value of transparency and accountability and to find new and more efficient ways of doing business.

The world has learnt many lessons from the global financial crisis, including the value of long-term sustainable growth over unrestrained greed and excessive short-term risk taking, of a sound corporate reporting framework and of sound prudential regulation.

The last factor — sound prudential regulation — is one of the reasons why Australia is faring so well, compared with other advanced economies.

While most other advanced economies have experienced deep contractions in output and employment over the past year, the Australian economy has continued to grow.

The only one of 33 advanced economies to do so over the past year.

This resilience is due to inherent strengths of our economy and the Rudd Government's targeted economic stimulus measures, which offset the worst of the crisis.

These advantages have been reinforced by the Australian banking system – one of the strongest and best-regulated in the world.

I have just returned from the Annual Meetings of the World Bank and International Monetary Fund in Istanbul, Turkey, where I held talks with a wide range of representatives from our major partner jurisdictions and also from the world's main private sector financial institutions.

And one thing was very clear in my talks – the strengths of our financial system are now global known and globally acknowledged.

Australia's "big four" banks are among only nine of the 100 largest banking groups in the world rated "AA" or above by Standard and Poor's.

While major banks around the world collapsed during the crisis, our banking system weathered the storm better than most.

Overall, Australia's banks remained stable and well-capitalised.

The resilience of our banking sector is due, in no small part, to the quality of our financial regulatory system, supported by the Rudd Government's decisive action to guarantee deposits and wholesale funding.

As well, our regulators are of high quality and have been proactive in assessing and managing emerging risks. After Australia's largest general insurer, HIH, collapsed in 2001, APRA adopted a more sceptical, questioning and, where necessary, aggressive approach to its prudential supervision.

This new approach no doubt put our regulators ahead of their international counterparts, as has our suite of actions since the recession hit our shores.

Nonetheless, we are well aware that the global economy remains fragile.

This is why we are actively working with the G20, the Financial Stability Board and the IMF to develop and implement a global reform program –

one that will put the world on the path to sustainable and balanced growth.

In his speech to the UN General Assembly on 24 September, Prime Minister Rudd highlighted the importance of this work. The Prime Minister said:

"... the global financial crisis has been a wake-up call to the international community to reform the institutions of global economic governance.

And a wake-up call that our system of global governance today is in radical need of reform."

On 25 September, the day after the Prime Minister's address to the UN General Assembly, G20 Leaders formally adopted a global framework for strong, sustainable and balanced growth.

They also enshrined the G20 as the new and permanent international body for global economic cooperation, stepping into the role previously played by the G8.

As a result, Australia now has a seat at the top-table of global economic decision-making.

The historic outcomes of Pittsburgh G20 Summit mark the culmination of long-held goals for Australia.

Importantly, they recognise the strength and effectiveness of the Australian response to the global financial crisis and the underlying resilience of the Australian economy.

The G20 endorsed the fiscal stimulus and expansionary policy settings enacted by the Rudd Government, which offset the worst of the crisis here in Australia.

Treasury estimates that, without the Government's economic stimulus injections, GDP would have fallen by 0.3 per cent in the June quarter, and the Australian economy would have contracted by 1.3 per cent over the past year.

As we know, the Australian economy has in fact grown - by 0.6 per cent over the past year.

Australia now has stronger growth, lower deficits and lower debt than any of the major advanced economies.

The decisions of the G20 Leaders in Pittsburgh were a real vote of confidence in Australia's economic management and a testament to the soundness of our regulatory regime.

Looking ahead, Australia will continue to argue for flexibility and a commonsense approach in the G20 and other international forums.

At the IMF and World Bank last week for example, Australia continued its strong and pragmatic approach of supporting reforms to how both organisations operate that will boost their representativeness and legitimacy and lock-in a constructive role for both in the new economic order being driven by the political will of the G20 Leaders.

We will continue to emphasise quality of supervision and enforcement of the rules – as well as clarity and transparency in their make-up. It will be essential for other countries do the same, to ensure consistency and to facilitate global trade and financial flows underpinned by a strong global financial system.

Role of business sector

Here in Australia, we are working to create the right environment to foster sustainable growth, boost the long-term productivity of corporate Australia and deliver flow-on benefits to the community.

But we cannot do this alone – business must be part of the solution.

There is a strong nexus between robust compliance programs, sound corporate reporting and good investment decisions.

When firms make business decisions on a sustainable, long-term basis and can demonstrate that commitment through effective reporting, wise investors will respond.

In turn, that creates the right environment for long-term survival and growth.

Importance of compliance

We all know that regulation cannot be effective without compliance. As economist John Stuart Mill once said:

"There is no such thing as absolute certainty, but there is assurance sufficient for the purposes of human life."

This is why compliance is so important.

Company executives need to know they have fulfilled their duties.

Firms need the assurance they have met regulatory requirements.

And now, more than ever, government and regulators need to be confident the system is running smoothly.

And as I have pointed to this morning, and as many of you here today have confirmed to me privately, the Australian system is working well.

As just one example, ASIC recently announced its review of the 31 December 2008 financial reports did not reveal any significant non-compliance with financial reporting obligations.

ASIC did emphasise, however, that directors and auditors should continue to focus on specific areas most affected by the current economic conditions. These areas include asset impairment, fair value determinations, off-balance sheet arrangements and financial instrument disclosures.

What does this mean for the compliance industry?

In shining a brighter light on the need for sound regulation and governance, the global financial crisis has also raised awareness of the value of the compliance industry.

As your Institute points out, compliance is the responsibility of all company employees – indeed it's something that needs to be embedded in the very "culture" of an organisation.

The presence of accredited compliance professionals within an organisation will help to promote a culture of compliance throughout that company.

By working closely with auditors, lawyers and risk managers, compliance professionals can ensure management is fully aware of its legal and ethical obligations.

In this way, compliance professionals play an important role in shaping the organisational culture and operations of their company.

How can industry help government to implement reform?

As you would be aware, the Rudd Government has recently introduced a significant financial sector reform agenda.

We always want to ensure our legislation works as effectively and efficiently as possible and to achieve this aim, we engage in comprehensive consultation.

In developing the two-phase Consumer Credit Protection Reform Package, for example, we consulted widely with stakeholders every step of the way.

Stakeholders included State and Territory governments, industry and consumer groups and experts in specific areas.

Comprehensive industry consultation was an integral part of the reform package, as the complex Phase 1 reform process replicated existing consumer credit compliance requirements and integrated new responsible lending conduct requirements.

Phase 2 is a process of policy development and will require further industry consultations – a process that my colleague Chris Bowen will lead.

Consultation is vital for developing robust and workable solutions to complex issues.

I encourage stakeholders and all interested parties to get involved early in the consultation process.

Financial Services Working Group

Earlier, I mentioned the work of the Financial Services Working Group in reducing the size and complexity of product disclosure documents.

Its goal is to improve investor understanding of risk, particularly at the retail level.

This is important work. One of the underlying causes of the global recession was a fundamental lack of understanding and analysis of risk by some market participants — both sophisticated and retail investors alike.

The Group's work will help investors to better understand the risks and make a proper assessment of those risks, as well as significantly reduce compliance costs for industry.

An Industry Costs Study conducted by the Financial Services Working Group found it cost industry \$35 million to develop and distribute PDS documents for superannuation products.

The total cost of developing and distributing PDS documents for managed investment products was even higher, at more than \$48 million.

The bulk of these costs are incurred in the printing of documents, engaging legal staff for content development and review, and other administrative costs.

Clearly, there is a strong case for reducing the compliance burden relating to disclosure in the financial services industry.

And an equally clear case for compliance officers to smooth the transition as we implement change in this area.

Conclusion

Before concluding, I would like to offer my congratulations to the graduates of the ACI's intensive compliance accreditation courses. I understand that your graduation ceremony is coming up a little later this morning.

I'm sure that the skills and knowledge you have gained will enhance your value to your employers and help to further the standing of the compliance profession.

Thank you again, and I hope that you find the remainder of the conference enjoyable and productive.