

Government Response To The

**House Of Representatives Standing Committee
On Economics, Finance And Public
Administration**

**REVIEW OF THE RESERVE
BANK OF AUSTRALIA ANNUAL
REPORT 2003**

**GOVERNMENT RESPONSE TO THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC
ADMINISTRATION ON ITS REVIEW OF THE RESERVE BANK OF
AUSTRALIA ANNUAL REPORT 2003**

Recommendation 1

That the Australian Bureau of Statistics, working with the Reserve Bank of Australia, give priority to developing an efficient, accurate and timely method for the collection of data relating to levels and movements in prices of residential real estate in Australia.

The Government agrees that the Australian Bureau of Statistics (ABS) should give priority to developing a more efficient, accurate and timely method for the collection of house price data.

The ABS has already begun to investigate improving the timeliness of the existing House Price Indexes by collecting house price data directly from lending institutions, rather than from valuer-general offices and real estate institutes.

The ABS will consult with interested parties, including the Reserve Bank of Australia, throughout this process.

Recommendation 2

That the Government meet with the States with a view to assessing and implementing the most appropriate regulatory regime for non-bank lenders, consistent with current regulation of authorised deposit-taking institutions.

The states and territories regulate the provision of consumer credit through the Uniform Consumer Credit Code (UCCC).

This nationally uniform regulation by the states and territories continues to receive broad community support. Reviews into the regulation of consumer credit, namely, the 1997 Financial System Inquiry, the 1999 UCCC Post Implementation Review, and the 2002 National Competition Policy Review of the UCCC, have not proposed changing the primary responsibility of the states and territories to regulate in this area.

Consequently, when the Australian Government made far ranging reforms to financial services regulation through the *Financial Services Reform Act 2001* (FSRA), consumer credit was excluded. The Australian Government regulates the provision of financial services through the FSRA. The states and territories have retained sole responsibility for the detailed regulation of consumer credit under the UCCC. All credit which falls within the scope of the UCCC is excluded from regulation under the Corporations Act.

The Australian Government has strongly supported a coordinated and consistent state and territory approach to regulating the finance and mortgage-broking industry.

At the 12 May 2003 Standing Committee of Officials of Consumer Affairs (SCOCA) meeting, a working group (chaired by NSW) was established and asked to explore

options for uniform state and territory regulation of the finance and mortgage-broking industry. The Australian Government is represented on that working group.

On 30 November 2004, the working group released a discussion paper for public consultation. The working group is to report to the Ministerial Council on Consumer Affairs (MCCA) by August 2005 with its post consultation findings.

The Australian Government has also encouraged the states and territories to investigate the regulation of property investment advice. In that regard, at the 1 August 2003 meeting of MCCA, the Australian Government and the states and territories agreed to set up a working party to investigate property investment advice.

The joint working group drafted a discussion paper for the purpose of public consultation. MCCA approved the public release of that paper on 27 August 2004. MCCA has asked the working group to provide its final report by June 2005.

Recommendation 3

That the Government consider amendments to the Reserve Bank Act to extend the restrictions applying to the activities of board members to include all suppliers of finance, irrespective of whether the supplier is considered to be an authorised deposit taking institution.

A number of measures are in place to ensure the proper conduct of the Reserve Bank of Australia (RBA) Board.

Board members are required under the *Reserve Bank Act 1959* to sign a declaration to maintain secrecy in relation to the affairs of the Board and the RBA. Further, members must by law meet the general obligations of directors of statutory authorities, as set out in the *Commonwealth Authorities and Companies Act 1997*, with many of these requirements being modelled on comparable areas of the corporations law.

In particular, Board members are prohibited from using their position or any information obtained by virtue of their position to benefit themselves or any person. They are also required to declare any material personal interest where a conflict arises with the interests of the RBA.

In addition to the above legislated requirements, the Board has agreed to adopt a Code of Conduct which provides a guide for the conduct of individual members in fulfilling their duties and responsibilities as members of the Board.

Moreover, the current *Statement on the Conduct of Monetary Policy* (the statement) enhances monetary policy transparency by setting out that changes in monetary policy and related reasons should be clearly announced and explained. The Bank also publicly releases commentary on the economic outlook and issues bearing on monetary policy settings, through public addresses, its quarterly statements on monetary policy and monthly statistical bulletins.

The statement sets out that the Governor should appear twice a year before the House of Representatives Standing Committee on Economics, Finance and Public

Administration, which has the power to question the Governor and the Bank on all matters of importance.

The above measures are complemented by the disqualification from Board membership of directors, officers or employees of all authorised deposit-taking institutions, which are considered a special case given that the RBA is responsible for the operation of the payments system. Seeking to extend this restriction may raise difficulties given the wide range of businesses that provide finance in some form. A broadly defined restriction on Board membership may unduly limit the range of suitably qualified candidates available for appointment to the Board and is unnecessary given the range of measures already in place to regulate the conduct of Board members.

Moreover, the Government has been careful in its appointments of RBA Board members to ensure that there are no unacceptable conflicts of interest.