

**SPEECH BY
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**ADDRESS TO G100 DINNER MEETING
“A SIMPLER REGULATORY SYSTEM”**

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Good evening.

I'm delighted to address such an influential and respected group as the G100.

This evening, I'd like to give you some insights into my thinking on the business regulation debate.

My comments are particularly based on my observations in the 15 months I've been in the Treasury Ministry. And of course, on my many discussions with consumer groups and practitioners in the finance, accounting and business sectors around the country.

My experience has led me to one conclusion - It's vital that we deliver, what I call, "A Simpler Regulatory System".

Complexity of regulation

As you may know, working to reduce the regulatory burden, and improve regulatory efficiency, have been major preoccupations of mine for some time.

As a former businessman, I share the experience of many of you of managing a business subject to an extensive array of regulation.

I'm sure that you will agree with me when I say that, over the last ten years or so, law-making has become somewhat of a growth industry in Australia!

In 2003, there were no fewer than 1,800 Commonwealth Acts of Parliament, 170 of which had been passed during the previous year. Legislation — in all its guises — is growing at over ten per cent a year.

Adding to this complexity, administrative action often supplements or even supplants legislative decision-making. This has given us elaborate rules which often produce consequences the legislators didn't intend or foresee.

Clearly, we need to strike the right balance between the government needing to get on with the job of governing the country, and the concerns of the business community that there's too much regulatory interference.

I think we all agree that it's high time for change.

The 18th Century German scientist and satirist Lichtenberg once said:

"I cannot say whether things will get better if we change. What I can say is they must change if they are to get better."

I'll go one step further than Mr Lichtenberg and say that I firmly believe things will get better if we make some changes.

As you know, this Government is committed to simplifying our regulatory system. A recent example is, of course, the Regulation Review Taskforce, which reported its findings to the Government yesterday.

Obviously, given my keen interest in this important issue, this is a report that I will closely review. I want to identify and move swiftly with any possible opportunities that fit with the government's priority in this area.

Regulation — sharing the responsibility

But even with the best of intentions, my parliamentary colleagues and I can't address this issue on our own. It's only with the support of the business sector that we can begin to critically assess where we are, and what we want our regulatory framework to be.

I strongly believe we should all work together towards achieving a more productive economy and more effective markets. Not as ends in themselves, or as articles of ideological faith.

Rather, I believe that these goals are the practical means for raising living standards and expanding life opportunities — for all Australians.

The business community can play its part in several ways.

Primarily, business can reduce the red tape to which it's subjected by supporting appropriate commercial conduct.

Businesses' behaviour can be influenced by self-regulatory mechanisms such as codes. But these are effective only where there are sanctions for improper conduct which are proportionate, and are imposed on delinquent entities.

Secondly, the business sector can help us to achieve a more flexible and more competitive regulatory regime by accepting — and it's a truism — that principles-based legislation will not mandate specific conduct.

The business sector will always need to use a degree of interpretation as to what the legislation is designed to achieve. And, necessarily, this will expose business to some risk.

Business needs to be prepared to make this trade-off.

Vision for government in reducing regulation

I'd now like to share my thoughts on what A Simpler Regulatory System might look like.

The question is — do we tackle complexity by reducing and simplifying our laws? Or do we try to make sense of complex systems?

My answer is that we need to do both.

Clearly, achieving A Simpler Regulatory System is not simply a question of removing every fourth law.

To simplify our systems, we need to look at them holistically. We need to examine our laws, not in isolation, but at how they interact with other laws.

We need an analytical framework for doing this.

But where do we start?

Looking at the pursuit of simplicity in the natural sciences gives us some indication of how we might go about such an analysis.

Throughout history, the search for order and structural regularity has been a powerful motivator, helping us to better understand the world around us.

I'll give you an example from my early career in music — Pythagoras' discovery of the simple ratios in the frequencies of musical notes.

Another example we will all remember from high school is Mendeleev's development of the periodic table of the elements.

Pythagoras and Mendeleev gave us a simple way of understanding what had previously been considered complex.

I often think that reading modern law is a bit like reading software programming. As we need a "user interface" to make software useable, I think we would also benefit from a similar framework to help us navigate our complex legal systems.

Comprehensive official guides and commentaries which provide straightforward descriptions of what a law actually does in practice may be a way forward.

Clearly, legal commentators already provide this service. But this is different to pronouncements made by those agencies actually responsible for applying the law.

IFRS

Another important way that governments can reduce complexity is by promoting common standards between countries.

This is why Australia has been a leader in adopting International Financial Reporting Standards (IFRS). We have also actively participated in the process to have IFRS accepted as a set of global accounting standards.

Australia's early experience in adopting IFRS means we are well-placed to assist other countries to deal with convergence.

As you are probably aware, the International Accounting Standards Board (IASB) is looking at GAAP convergence with the US Financial Accounting Standards Board.

When I recently met with Sir David Tweedie, Chairman of the IASB, I expressed my willingness to help promote convergence as soon as possible.

Accurate financial reporting promotes good corporate governance and accountability among our corporations.

As well, globally accepted standards will simplify life for investors, as it will be easier to compare financial information across borders.

Common standards should also reduce compliance costs for those who prepare financial information, and who need to report on company operations in different countries.

The adoption of international accounting standards will also promote integrity and transparency among our corporations. In turn, this will foster trust and confidence in our capital markets.

All these are essential factors for sustaining economic growth in modern market economies.

I should also point out that IFRS will also fill several gaps in the Australian financial reporting framework. For example, it will help to standardise the reporting of financial instruments and intangible assets.

Improving efficiency of regulation

Until now, improving regulation has focused on increasing the efficacy of regulation. For example, achieving improved corporate governance, consumer protection and market transparency.

The first step in achieving A Simpler Regulatory System is to move the focus from efficacy to efficiency.

By efficiency, I mean finding the most cost-effective and least onerous way of achieving our goals.

As this audience will well appreciate, Australia has achieved productivity gains primarily through creating a regulatory environment in which an open market economy — based on a stable, efficient financial system — allocates resources to their best use and spurs innovation.

The Australian Government has set its sights on sustaining our impressive productivity growth of the last ten years well into the future.

I see A Simpler Regulatory System as a necessary component in securing that future productivity growth.

I believe that an effective framework regulating financial markets and corporations is a prerequisite for the market to function efficiently, for building market confidence and actually achieving future productivity growth.

Well-functioning markets essentially mean a “win-win” situation for business and consumers.

In some cases, the Australian Government will consider market intervention to attempt to enhance economic efficiency and equity.

However, Government intervention cannot always assure a better outcome than that provided by the market — even a market that contains some inefficiencies.

And it's this fact that poses a question for governments around the world. If a market is inefficient, at what point is it necessary for government to intervene?

The fact that market inefficiency exists does not — in my view — mean that regulatory intervention is necessarily the right answer.

Regulation imposes costs on the economy. Clearly, it would be inappropriate to introduce regulation where the costs outweigh the benefits.

To determine if regulation is the best option, the Government must rely on stakeholder input. This is because the Government is often called on to intervene in markets in which we do not participate on a day-to-day basis.

The Australian Government relies on stakeholder consultation to help us decide whether the market inefficiency needs intervention. Or whether it's a problem that the market itself can correct.

But consultation also presents its own set of challenges.

Consultation usually reveals the diversity of Australian opinion and need. The job of the Australian Government is to weigh up the opinions of all stakeholders, consider the costs and benefits of regulation, then determine where the balance lies.

Much of the current variability in existing legislation arose from a plethora of individual decisions. Our challenge now is to look at these decisions from a broader and cumulative perspective.

On that point, I welcome the enthusiastic engagement of the business community in the recent public debate. I strongly believe that stakeholders play a vital role in actively engaging with the Government, and helping to develop informed community discussion on important issues.

Overseas developments

Australia is not the only country grappling with these issues. Various jurisdictions around the world are currently considering how they may improve their regulatory systems.

In March 2005, the European Commission announced its package for better regulation for the European Union. The United Kingdom has also established a project to improve regulation. In its 2005 Budget, it created the Better Regulation Commission.

On the other side of the Atlantic, the United States has been pursuing the issue of improving regulation through independent think-tanks which have produced lively debate between respected commentators.

Much of this debate has focused on the quality of cost/benefit analysis conducted by American legislators.

For example, Dr Robert Hahn — who spent two years as a senior staff member of the President's Council of Economic Advisers — argues that the best way to improve regulation in the United States is to continue to improve the cost/benefit analysis conducted by US agencies.

The US think-tanks are also advocating other means to improve regulation. Such as reviewing and possibly rewriting existing legislation, with a view to implementing more flexible and cost-effective requirements.

Achievements and Way Ahead

Earlier, I spoke about how we might make sense of complex systems.

My work on refining financial services regulation I think is a good example of how to tackle complex regulation in a practical way.

One of my first initiatives last year was to review the operation of the Financial Services Reform Act. The 2001 reforms to financial services regulation were a sea change that replaced ramshackle legislative arrangements with a coherent regulatory framework.

These reforms were an example of the Government rationalising legislation to produce simplified regulatory arrangements.

This law was also designed to meet contemporary community expectations about the standard of financial services. A radical overhaul was needed to safeguard the growth of individual wealth resulting from the Government's successful economic policies.

Australians expect and accept the responsibility for managing their money. But they also expect rules that allow them to participate with confidence in the market.

There is strong community support for the improvements to the regulatory framework and the standards brought about by this reform to financial services regulation.

However, in light of stakeholders' day-to-day experience with the legislation, it became abundantly clear to me that some aspects of the FSR would benefit from refinement to improve their practical operation.

As a result, in May last year, I released a paper setting out a series of refinements. These were enacted last December.

FSR is sound, principles-based legislation that delivers what it promised. The problem areas lay with the way it was implemented, and over-elaboration through subordinate legislation.

The work on refinements clearly distinguished between maintaining the framework to meet broad policy objectives, and the need to address practical operational issues.

My two key objectives were firstly, to reduce the compliance burden on industry. And secondly, to clarify the intent of the legislation.

I am on the record as saying that I'm a strong believer in partnerships. To this end, I encouraged close ongoing consultation between industry and those preparing the refinements.

This close partnership did as you would expect, raise further matters for consideration.

While not fundamental in nature, it is clear that some more refinements are warranted. I am committed to seeing these further refinements implemented this year.

I want to assure you of my commitment to a partnership approach to further improve regulation for which I am responsible.

G100 concerns

Before concluding, I'd like to note that I'm aware of the current issues identified by the G100.

I'm also aware that you have responded to the Business Regulation Advisory Group — or BRAG — which is advising me on business regulation issues.

These matters include executive remuneration disclosure requirements... rules surrounding the payment of dividends... and parent entity reporting requirements.

I'm pleased that the G100 has engaged on these issues and I will be discussing these matters with BRAG this week.

I'm also aware that the G100 is generally supportive of proposals designed to facilitate cooperative arrangements between ASIC and the US Public Companies Accounting Oversight Board.

Discussions on this project are still underway with the accounting firms and professional bodies. I anticipate that a Bill will be introduced into the Parliament during the Autumn sittings.

Conclusion

As I have outlined to you this evening, we've already made some progress towards improving our approach to regulation.

Now we need to work together to tackle the more complex regulatory system issues. This means achieving A Simpler Regulatory System.

To paraphrase Lichtenberg, I can assure you that, if they are to get better, things must change.

I want to leave you with the confidence that I am completely dedicated to achieving necessary changes and to delivering A Simpler Regulatory System.

This will not be an easy road to travel, however, it is a road that must be travelled as a matter of priority and urgency for the sake of our nations' prosperity.

Thank you.