



BANKING INDUSTRY

Promoting Good Corporate Governance and Transparency: Banks perspective

**Asian Bankers Association and APEC Business
Advisory Council symposium
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"A commitment to good corporate governance—well-defined shareholder rights, a solid control environment, high levels of transparency and disclosure, and an empowered board of directors—make a company both more attractive to investors and lenders, and more profitable. Simply put: it pays to promote good corporate governance."

[International Finance Corporation, World Bank Group, 2005]

The regulatory challenge – corporate governance



- Challenge for banks in implementing good corporate governance is understanding the myriad of obligations
- Challenge for the legislators in introducing good corporate governance is balancing the public interest with compliance burden for banks
- Challenge for regulators in administering standards of good corporate governance is the dual role of developing and enforcing policy
- Get the balance right!
 - ◆ Cost and benefit
 - ◆ Clarity/certainty and flexibility
 - ◆ Consultation and enforcement

What am I going to cover?



- Introduce the ABA
- Describe banking sector
- Describe banking sector regulation
- How banks are regulated for corporate governance
- Emerging corporate governance issues in Australia

What is the ABA?



- Industry association for the Australian banking industry
- Represents institutions holding domestic banking licence
- 26 members comprising major trading, regional and international banks
- ABA's Council is composed of 12 bank chief executives
- the current Chairman is Dr David Morgan, CEO Westpac
- Member of the International Banking Federation

Australia's banking sector



- Banks operating in Australia offer a wide range of products and services
 - ◆ Banking
 - ◆ Funds management
 - ◆ Insurance
 - ◆ Financial advice
- Investment grade greater than "A"
- Concentration in banking sector

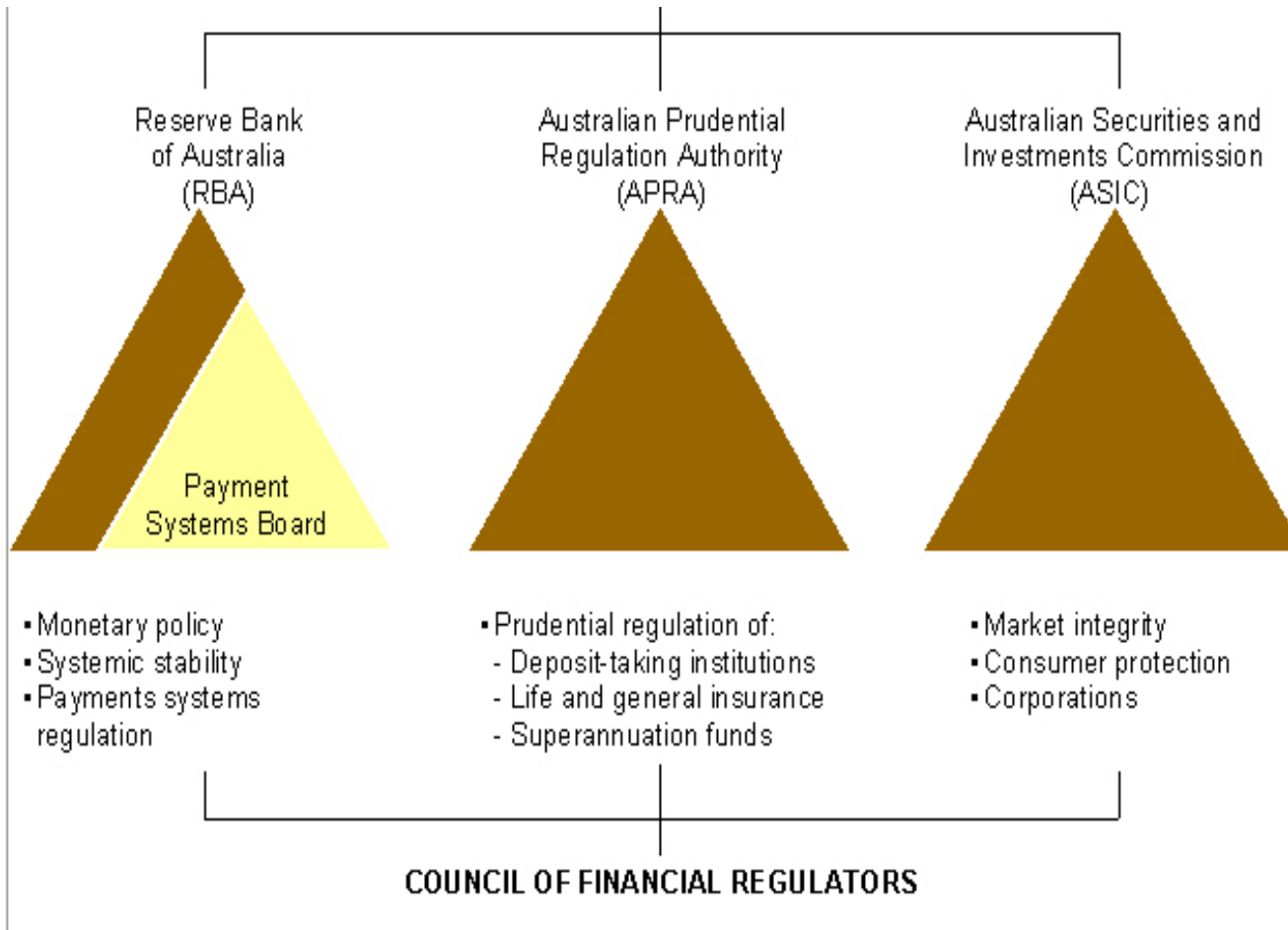
Bank	A\$b*	S&P rating
Commonwealth Bank of Australia	246.8	AA-
National Australia Bank	243.3	AA-
Westpac Banking Corporation	201.4	AA-
ANZ Banking Group	188.7	AA-
St George Bank	77.6	A
Suncorp	38.1	A
BankWest	33.1	A+
Macquarie Bank	26.2	A-
ING Bank (Australia)	26.1	AA
Societe Generale	15.6	AA-

* Total resident assets = sum of assets adjusted

Banking sector regulation



Australia's Financial Regulatory Framework



Other regulators:

- ATO
- ACCC
- AUSTRAC

Department of the Treasury

"Banking supervision cannot function as well if sound corporate governance is not in place and, consequently, banking supervisors have a strong interest in ensuring that there is effective corporate governance at every banking organisation."

[Basel Committee on Banking Supervision, 1999]

How are banks regulated with respect to corporate governance in Australia?



- APRA and prudential regulation – *Banking Act 1959*
- ASIC and disclosure/conduct regulation – *Corporations Act 2001*
- ASX and *Principles of Good Corporate Governance and Best Practice Recommendations*
- Sarbanes-Oxley Act – extra-territorial reach

What are the emerging corporate governance issues in Australia?



- IBFed submission on Basel Committee on Banking Supervision consultation paper: *Enhancing Corporate Governance for Banking Organisations*
- ABA submission on APRA draft prudential standards: *Governance standards and 'Fit and Proper' requirements*
- ABA submission on PJC and CAMAC inquiries into corporate responsibility
- ASX Corporate Governance Council considering application of best practice principles

Conclusion



- Integrity of corporations, financial institutions and markets is central to the health and stability of our economy
- Effective regulation leads to market confidence
- Legislators, regulators and industry must work together to find the right balance for good regulation
- Competition generates creativity and innovation