

CRAIG THOMSON MP

Chairman of the House of Representatives Standing  
Committee on Economics



# Inquiry into competition in the banking and non-banking sectors

# Timeline



- On 2 June - the Treasurer announced the introduction of a Financial Claims Scheme for depositors and policyholders
- 3 September - The Reserve Bank of Australia cut its cash rate by 0.25% to 7.00%.
- 7 September – Fannie Mae and Freddie Mac were placed into conservatorship by the US Government.
- 14 September - Lehman Brothers filed for bankruptcy.

# Timeline



- 19 September – US Treasury Secretary Henry Paulson announced a US\$700 billion rescue package.
- 26 September – The Australian Government announced a \$4 billion investment in Residential Mortgage Backed Securities.
- 29 September – the Bradford and Bingley mortgage book was nationalised by the UK Government.
- Also on 29 September – Paulson's rescue package was defeated in the US House of Representatives
- On 3 October – Paulson's rescue package was then passed and signed into law

# Timeline



- About this same period, from 6 to 8 October, the Australian All Ordinaries lost 16.1 per cent – closing at 3,939.50 on 10 October, down from an opening of 4,697.80 on 6 October.
- The world's stock markets also suffered a major downturn, the US Dow Jones losing 22.1 per cent, its worst week on record.
- Over the weekend of 11-12 October, meetings of the G7 and G20 in Washington agreed to urgent and unprecedented coordinated action to address the crisis, including the strengthening of depositor protection and measures to assist financial institutions to raise new funds.
- Also on October 12, Australia's Prime Minister Kevin Rudd, announced Government guarantees on deposits and wholesale funding. Coupled with that announcement was an additional \$4 billion investment in Residential Mortgage Backed Securities.

# Timeline



- The next day, the Prime Minister announced the \$10.4 billion Economic Stimulus package. We'll hear more about this soon.
- 14 October – another day on, and the US announced it would use some of the \$700 billion available from the Emergency Economic Stabilization Act to inject \$250 billion into US banks in return for non-voting equity.
- On 17 October, Australia's Financial Claims Scheme received Royal Assent.
- 23 October – The Canadian Government announced a voluntary guarantee facility (for six months) on the wholesale term borrowing of federally regulated deposit-taking institutions of up to C\$218 billion, which was A\$263 billion.

# Timeline

- 24 October – back in Australia, the Treasurer announced further details of Government guarantee arrangements, including a \$1 million deposit guarantee threshold.
- And on 5 November, The Reserve Bank of Australia cut the cash rate by 0.75% to 5.25%.



# Recommendation 1

The committee recommends that the government continue to monitor the state of the Residential Mortgage-Backed Securities market and review the adequacy of the current level of investment in light of future market developments.



# *Recommendation 2*



- The committee recommends that the Reserve Bank of Australia examine the appropriateness, feasibility and risks of expanding the repurchase agreements by extending their term to maturity even further and provide a public audit report within six months. The report must be made available to the committee for review.

# Recommendation 3

- The committee recommends that the Treasury examine the appropriateness and feasibility of allowing Australian authorised deposit-taking institutions to issue covered bonds.



# Recommendation 4

The committee recommends that the government review the current adequacy of the Trade Practices Act 1974 to provide the Australian Competition and Consumer Commission the powers to investigate and address issues of concern in markets and regulated sectors.



# Recommendation 5

- The committee supports the findings of the Australian Law Reform Commission's report and urges the government to implement the report's recommendations on reforming Australia's credit reporting system.



# Recommendation 6

- The committee recommends that consideration be given to including card schemes in the Account Switching Package.



# *Recommendation 7*



- The committee recommends that after 12 months in operation, the Treasury review the Account Switching Package with consideration being given to any areas in which it may be enhanced, including consideration of the costs and benefits of a more centralised account switching system, such as those in operation in the UK and The Netherlands.

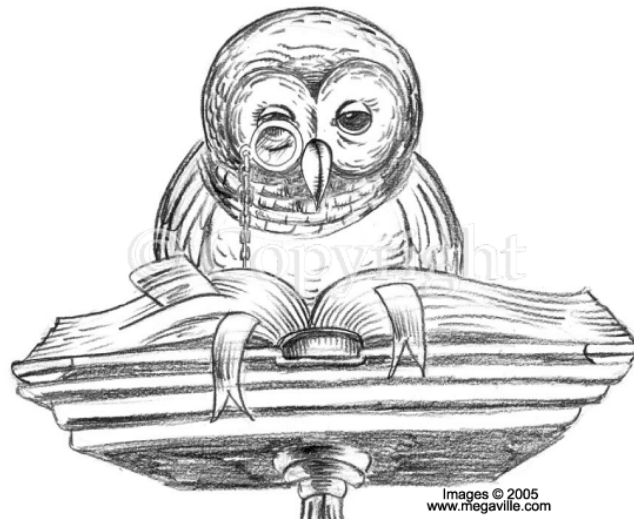
# Recommendation 8

The committee recommends that, as part of the adoption of responsibility for the regulation of credit and the introduction of a national consumer policy framework, the government consider mechanisms for making entry and exit fees more transparent and for addressing unfair entry and exit fees.



# Recommendation 9

- The committee recommends that the Australian Securities and Investments Commission includes a glossary of standardised financial terms in simple language on its consumer website and also on the Financial Literacy Foundation's website.



# Recommendation 10

The committee recommends that, as part of its adoption of responsibility for the regulation of credit, the government consider the feasibility of regulating unsolicited credit card limit increases.



# Recommendation 11

The committee recommends that the Treasury develop a standardised key facts document for mortgage products, based on the UK model, to help consumers to compare financial products. The standardised key facts document must be provided to the committee within twelve months.



# Recommendation 12

- The committee recommends that, as part of its adoption of responsibility for the regulation of credit, the government make it compulsory for all credit providers to be a member of an external dispute resolution scheme approved by the Australian Securities and Investments Commission, as is currently the case for deposit-taking institutions.

