

**ALEX ERSKINE, MANAGING DIRECTOR AND FOUNDER,
ERSKINOMICS CONSULTING PTY LIMITED**

PO BOX 219, NEUTRAL BAY NSW 2089 AUSTRALIA



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Head of Secretariat
Financial System Inquiry
The Treasury
Langton Crescent
PARKES ACT 2600

I thank the Treasurer for the opportunity to comment on the draft terms of reference for the inquiry. Having worked on ways to promote sustainable economic growth through improved financial policy and financial sector development for most of my 40-year career, my suggestions may be helpful.

According to the Treasurer's announcement, the committee is being asked to report on:

- How the financial system can more efficiently allocate Australian sourced capital to minimize our exposure to volatility in global capital markets;
- How we can best balance competition, innovation and efficiency with stability and consumer protection;
- The role and impact of new technologies, market innovations and changing consumer preferences;
- International integration, including international financial regulation.

For the benefit of the public, as well as the committee yet to be appointed, the following suggestions are put forward, for adoption in the redrafted terms of reference:

1. The terms of reference need to look forward to developments and pressures in the next 10 – 25 years. The current draft is almost entirely focused on the present or is backward looking. Australians increasingly will need sound and sustainable incomes in retirement, and this should be mentioned explicitly in the terms of reference. In addition, current interest rates and costs are not going to persist for ever: at some point over this period, interest rates in the rest of the world are likely to increase, returning back to “normal”. The Committee should focus on the implications.
2. The draft terms of reference imagines a trade-off between efficiency/competition and stability/protection. A successful search for stability inevitably leads to instability, as risk taking will increase if stability were considered likely to persist. It is better not to make stability a goal in its own right, but rather a byproduct of efficiency, competition and sound macroeconomic policies.
3. The initial draft terms of reference appear too bland to be useful. For instance, rather than inquire into “the role, objectives, funding and performance of financial regulators”, it would be preferable to name ASIC in the terms of reference as the regulator most obviously coming up short. In my view, ASIC has too many goals and irrespective of its funding is bound to fail as a result of a lack of focus.

Again, thank you for the opportunity of commenting on the proposed draft terms of reference, and for your consideration.

Yours sincerely,

Alex Erskine
Managing Director and Founder
Erskinomics Consulting Pty Limited
PO Box 219
Neutral Bay NSW 2089
Australia

Phone +61 (0)411 243 860
Email alex<insert<at>>erskinomics.com