HD 'Outlook for Financial Markets in Australia and the G20′ – Address to the Stockbrokers Association of Australia Conference, Melbourne

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Thank you, Karl for that introduction. Can I acknowledge you, as a good friend, and Chair of the Association, and your CEO David Harsfield.

I am delighted to address the Stockbrokers Association of Australia's 2014 Annual Conference.

As the peak industry body representing institutional and retail broking firms the Stockbrokers Association of Australia plays a central role in ensuring that industry and the Government understand the issues facing Australia's capital markets.

Financial markets play a key role in facilitating the economic wellbeing of all Australians. They facilitate access to capital by businesses and enable the efficient management of risk. They support access to a wider range of investment opportunities for Australians, including, crucially, for our growing superannuation pool.

In the time I have to speak to you today I would like to give a flavour of current market trends and the domestic economic outlook from the Government's perspective. I will address the significant developments in the regulation of Australia's capital markets, and provide a progress report on Australia's G20 presidency; and the Financial System Inquiry.

Global financial markets are at an interesting juncture. The prospect of US Fed tapering pushed borrowing costs higher globally in mid-2013, exposing vulnerabilities in a number of emerging markets.

Concerns about slowing economic activity and financial instability in **China** caused a further deterioration in early 2014. Although conditions in most emerging markets have since stabilised, idiosyncratic concerns remain, including credit risk in **China** and geopolitical risks associated with developments in Ukraine and Russia.

As markets appear to have largely priced in the Fed tapering last year, there has been little bond market volatility surrounding the three US$10 **billion** decreases in asset purchases since December 2013.

Despite some recent volatility in major global **equity** markets, developments in credit markets suggest investor risk appetite remains robust.

According to Standard and Poor's, global corporate bond issuance totalled US$862billion in the March quarter.

Around a third of this was issued by entities that have either sub-investment, or speculative, grade ratings, or are unrated.

Even Greece and Portugal have been able to issue **bonds** over the past month.

In Australia, the front-end of the yield curve remains well-anchored around the cash rate target due to market perceptions that monetary policy will remain on hold through 2014.

Longer-term Australian Commonwealth Government bond yields have eased slightly in recent months, in line with movements in US Treasuries.

The Australian dollar has appreciated from a low of 86.60 US cents in late January 2014 to trade back to around 93 US cents in April, supported by the RBA's more neutral monetary policy stance as well as stronger economic indicators.

Turning now to Australia's economic outlook, Australia is in the midst of a major economic transition. Investment in resources projects is shifting from being the key driver of growth towards becoming a significant detractor from growth.

The December National Accounts saw the Australian economy grow by 0.8 per cent in the quarter, beating median market expectations, and by 2.8 per cent through the year.

Quarterly growth was higher than the below-trend pace experienced over much of the past 18 months, reflecting a strong rise in export volumes, and solid growth in household consumption.

Consistent with the transition from the resources investment to the production phase of the **mining** boom, exports have risen, while imports of capital goods have eased.

The rise in export volumes, 2.4 per cent for the quarter, was underpinned by strong growth in resources exports – particularly, **coal** and **iron ore**.

This resulted in a strong contribution to GDP growth from net exports for the December quarter. The latest trade balance data for 2014 suggests that this trend has continued into the new year.

Household consumption grew 0.8 per cent in the quarter and by 2.6 per cent through the year, supported by a decline in the household saving ratio to 9.7 per cent, which has trended lower since peaking at 12.4 per cent in June 2012.

The latest retail trade figures also suggest that signs of a recovery in consumption have continued into the new-year. Retail trade rose 0.1 per cent in the month of March to be 5.7 per cent higher than a year ago. March's retail trade result signified the eleventh consecutive month of positive month on month growth – the longest period of consecutive growth since early 2007.

The pick-up in dwelling investment remained modest in the latest National Accounts, but it is expected to contribute more strongly to GDP growth this year, given the recent strength in building approvals.

Private sector building approvals were up a solid 20.3 per cent through the year to March 2014. Private sector building approvals over the seven months from September 2013 to March 2014 were at their highest level on record.

Recent increases in house prices and **equity** prices have resulted in a pickup in household wealth. These increases are providing support for household consumption.

Encouragingly, National Australia Bank's business confidence measure remains positive and businesses have also reported an improvement in conditions.

So there is encouraging early evidence the transition from resources-led demand growth to broader private demand growth is beginning. It's expected that a recovery across the economy more broadly will be supported by sustained low interest rates, particularly if they're combined with further falls in the exchange rate.

Putting all this together, economic growth will continue, although as presented at Budget, a little below trend over the next couple of years.

Over the past couple of decades, the financial sector has grown faster than the rest of the economy, at about 5 per cent a year.

Today it employs around 422,000 people, and represents around 9 per cent of the economy.

Ensuring Australia's capital markets are competitive has the potential to draw additional liquidity to Australia, and to retain high-quality listings here in the face of fierce competition from other financial hubs.

Financial market competition benefits market participants through reduced trading fees charged by market operators, a greater choice of execution venues, and increased turnover as investors respond to lower costs of trading and new technologies.

The launch of Chi-X Australia's trading platform in October 2011 offered a significant alternative venue for trading ASX-listed securities.

With Chi-X now having a 15 per cent market share in the trade of cash equities, there is evidence that these benefits are being realised.

For instance, following the introduction of Chi-X, the ASX slashed its headline trading fees by almost half – from 0.28 basis points per side per transaction to 0.15 basis points.

Australia continues to see new competition in trading – from the entry of new foreign professional markets to the launch of domestic facilities, such as APX, which I was very pleased to launch during the G20 Finance Ministers Meeting in Sydney earlier this year.

Since July last year, there has also been competition in clearing services for over-the-counter derivatives, with the entrance of UK-based clearing provider LCH Clearnet and the launch of ASX's OTC clearing service.

Industry, along with Government, has a vital role to play in driving reforms in Australia's capital markets infrastructure.

Since 1 October 2013 the major banks have been obliged to report on OTC derivatives, with other financial institutions set to follow over the course of 2014.

Following recent consultations, the Government is considering whether to permanently extend the end-user carve-out from trade reporting, in light of concerns of the regulatory burden such reporting entails for end-users.

This year, Australia is fortunate to the hold the G20 presidency.

The agenda is focused on two core themes.

The first is to promote stronger economic growth, through unlocking private sector growth including by boosting investment in infrastructure.

The second theme is about making the global economy more resilient to deal with future shocks.

Progressing work on financial regulation, international tax, and IMF reform will be central to protecting the global economy from the effects of volatility, risk and uncertainty.

There is a strong relationship between our actions to improve the resilience of our global economy, and our goal to boost growth.

Resilience goes hand in hand with strong growth.

That's why we are focusing, in this year of our G20 Presidency, on reforms to 'grease the wheels' of the global economy.

This includes resolving remaining cross-border implementation issues relating to OTC derivatives reforms, ensuring that companies pay their fair share of tax, and leveraging greater private sector investment for infrastructure.

It is important for G20 reforms to be implemented across jurisdictions in a coordinated and consistent way.

Regulators and authorities need to cooperate and synchronise to implement rules in individual jurisdictions.

Where this has not happened concerns have surfaced about undesirable market fragmentation and increased costs and uncertainty for business.

One important way to prevent this issue is substituted compliance, whereby regulators conduct equivalence assessments of regulatory frameworks in other jurisdictions.

Where there are equivalent obligations, jurisdictions should defer to each other and provide relief from obligations to entities from other jurisdictions.

Ideally, this means market participants and operators are primarily regulated in their home country by their home regulator.

This is particularly important for Australia, as a medium-sized open economy that relies on the large global capital markets for funding, and risk management through the use of derivatives.

The Government and our regulators have been very active in seeking coordinated and consistent implementation of our reforms with those of other jurisdictions, in particular the US and the EU.

Some notable outcomes have already been achieved.

The European Securities and Markets Authority has advised the European Commission that the Australian regulatory framework is equivalent to the European framework in most important areas, including trade reporting and mandatory clearing.

The main US regulator of OTC derivatives, the Commodity Futures Trading Commission, has also provided substantial relief from a range of entity level requirements for Australian banks active in US financial markets.

More remains to be done to complete the implementation of the G20 reforms and to achieve cross-border harmonisation, but the work is well underway.

The Government also believes that a strong retail corporate bond market will give businesses greater choice in where they source their funding, and greater opportunities for investors to access an alternative source of fixed income investment.

The Johnson report recognised that the retail corporate bond market in Australia is underdeveloped and that a deeper, liquid retail corporate bond market would benefit businesses and investors in Australia.

There has been significant consultation with stakeholders on possible reforms, and industry has shown strong support for change.

I recently introduced a Bill into Parliament to make it easier to issue simple corporate **bonds** in the retail market, reducing costs for bond issuers through simplified disclosure obligations.

The Bill removed the deemed civil liability that applies to **company** directors when offering corporate **bonds**, and clarify due diligence requirements regarding directors' criminal liability.

The Bill will also put in place changes to enable trading of simple corporate **bonds** in the retail market, where the **bonds** are first issued in the wholesale market.

The Coalition is committed to reducing red tape in order to improve Australia's productivity, boost business confidence, promote investment and encourage employment.

The Government has established a compliance cost reduction target of $1 **billion** per annum and has overhauled the processes for creating, implementing and reviewing new regulations.

We held the first Parliamentary repeals day in March, which began the process of removing outdated and onerous regulations.

There will be two of these repeals days per year.

Regulators, such as ASIC and APRA, will also be subject to the new deregulatory approach.

The Government is considering a recent report from the Productivity Commission that describes a possible framework for auditing the performance of regulatory agencies.

The Government has also been active in pursuing new opportunities to support Australia's credentials as a financial services hub in the region.

The Asia Region Funds Passport will provide streamlined access by Australian fund managers to markets in regional economies, and give Australian consumers greater product choice.

I am pleased to report that development of the passport, which is an Australian industry led initiative, is proceeding well.

Following public consultations, the Passport arrangements will be finalised, and participating economies will sign an agreement in early 2015.

The arrangements will then be enacted and the Passport will commence in early 2016.

In addition, the Prime Minister has recently announced that we are working towards making Sydney an offshore renminbi centre, with the central banks of Australia and **China** working together on potential future clearing and settlement arrangements.

This would allow domestic financial institutions to meet the needs of the future in a world where **China**'s share of both economic and financial market activity is increasing.

I want to conclude by emphasising the importance of industry working with Government to map the path to reform and growth of Australia's financial system.

The Financial System Inquiry, chaired by Mr David Murray, offers a timely examination of whether the current settings are appropriate for the financial system to support continued growth in investment, employment and the economic prosperity of the nation.

The Inquiry received over 270 submissions during the first round of public consultations, and I would like to thank the Stockbrokers Association of Australia for making a submission.

The Inquiry's next step is to release an interim report mid-year, and to seek public feedback. I would again encourage you to participate in this part of the review.

Australia is and remains a good place to invest. The G20 work we are leading, along with our robust domestic reform agenda, will make it an even better one.

I look forward to working with you to better position Australia to respond to growth opportunities domestically and in the Asia-Pacific region.

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