

# Key Issues in Regulatory Reform

In Part Two, the Inquiry presents its recommendations for changes to the regulatory arrangements for the financial system.

Consistent with its Terms of Reference, in developing its recommendations the Inquiry has sought in particular to:

- balance the objectives of efficiency and cost effectiveness with those of financial market stability, prudence, integrity and fairness;
- design a regulatory framework that will be adaptable to the financial innovations and other market developments identified in Part One; and
- ensure that the regulation of similar financial functions, products or services is consistent between different types of institutions.

The Inquiry considers that to meet these goals it is first necessary to establish a logical framework within which regulation can be assessed. Accordingly, this Part begins with a philosophy of regulation in Chapter 5.

Given the Inquiry's focus on efficiency and cost effectiveness, Chapter 6 provides a review of the cost of financial activity in Australia. This chapter also provides an indication of the benefits that would accrue to an improvement in efficiency.

Together with the Inquiry's vision for the financial system, the potential efficiency gains have guided the development of the recommendations presented in Chapters 7 to 11.

The Inquiry's Terms of Reference require it to consider means for funding the direct costs of regulation. This question is among those addressed in Chapter 12.

Given the breadth and scale of its proposals, the Inquiry considered issues that may be raised by implementation. While implementation is largely a matter for the Government, some observations are made in Chapter 13.