

WALLIS INQUIRY — COMMERCIAL IMPLICATIONS FOR FINANCIAL SERVICE PROVIDERS

QUESTIONS AND ANSWERS

Question – John Abbott (Chairman):

Jeffrey, if I could ask a question to which, I think, there is an obvious answer, namely, why are the so called finance companies etc excluded from the prudential regulation regime?

Response – Dr Jeffrey Carmichael (Speaker):

Basically because of their wholesale orientation, the fact that they raise their finance under prospectus. The real concern for prudential regulation, if you look at, I think, Chapter 5 of the report, it talks about promises. The big interest of prudential regulation is to make sure that promises made by providers of financial services are understood and that those promises that can be kept, are kept. For when you are dealing with the retail financial sector, which, for example, all deposit taking deals with because they are taking deposits out of prospectus, there is a much stronger case for providing that informational imbalance. I talked about the asymmetry case. Once you get to finance companies issuing prospectuses raising funds under prospectus, that asymmetric information case diminishes enormously and so we left out from the regulatory net those institutions that we did not think had an asymmetric information case for getting in there.