

GLOBALISATION OF THE FINANCE AND CAPITAL MARKETS

QUESTIONS AND ANSWERS

Question – Roger Drummond (Bell Gully Buddle Weir, Wellington):

I would like to ask Wayne Hoy if he could give us some comments on the current state of play in developing Sydney as an international financial centre through its OBUs and also its regional headquarter status. Following that, I would be interested in Philip Wood's comments on the development of international financial centres around the world and also the benefits that perhaps accrued to Ireland, which seems to be a bit of a role model in that area.

Response – Wayne Hoy (Speaker):

I guess Sydney is developing very strongly at the moment. Based on a very positive legal and established market framework, we find it exceptionally easy to market to foreign issuers of securities, purely on the basis that we have a low cost structuring regime for debt securities issuance. A lot of them have faced costs on securities that are roughly five times what they are in this market and that makes us particularly attractive. Whether it is Sydney or Melbourne is not really the issue. I guess going forward though, a lot of players in the market are tending towards Sydney. The Melbourne-based banks have definitely moved their operations north. And also the US banks who are flocking to our shores at the moment are setting up in Sydney to take advantage of our established market. Has that covered all of your question?

Question – Roger Drummond (Bell Gully Buddle Weir, Wellington):

I read a recent report that there were some further moves required to really establish Sydney as a truly international financial centre and that whilst there had been some attempts to put the structure in place, it had not quite been as successful as was originally intended.

Response – Wayne Hoy (Speaker):

Yes, you are quite right. Some of those things take a long time to develop. The attitude in the Treasury, by the way, is that we have broken down the walls – it is up to you to develop the place. Certainly the attitude in the Reserve Bank is one of "let's keep the most robust financial system in place that we possibly can". Neither of those two entities are out there pounding the pavement saying "let's develop this place as a fantastic capital market", but certainly on the hill in Canberra the intent is very much that Sydney will become a world-class financial centre. And I think, given the accumulation of capital here and the pace at which it is growing, we are going to become the capital basket for Asia going down the line. I know that Bob Carr is particularly interested in making Sydney the financial centre, but you do not often see any great practical moves towards that. Please do not quote me!

Response – Philip Wood (Speaker):

Roger, I think to have a successful financial centre, firstly, you have to have a tax regime which is friendly and you have to have an overall government attitude which is non-protectionist. Secondly, you have to have a very liberal legal system which has a high moral tone but which is not intolerant, and which enables you to do things without getting caught up on this or that hurdle. Thirdly, you have to have very sophisticated people who are able to do these things – now I do not mean just merely clever people who can manipulate things, but people with a proper sense of risk and who are reasonably cautious.

I actually think that Australia has all of those things and so has New Zealand, in buckets. I think that some of the markets which have done well in East and South-East Asia, like Singapore and Hong Kong, do not have all of those things to quite the same degree that you have here – so good luck to you, you can be very optimistic.

Question – Robert McDonnell (Allen Allen & Hemsley, Sydney):

Philip Wood has mentioned globalisation moved back to security and Wayne Hoy has talked about the need for debt being raised from the corporate sector in Australia. Are we likely to see the resurrection of the debenture trust deed in this market or in the English market? This has been something that has been absent for some time.

Response – Philip Wood (Speaker):

There are very different attitudes to the debenture trust deed and the role a trustee of that deed plays. The first, for instance, say that it is a very bad idea to have a trustee because it means that there is someone you can negotiate with and therefore the bondholders do not get paid, and that it is much more likely that bondholders do get paid if there is no trustee because you have to pay them. That is their attitude. And in fact, there have been quite a few difficult work-outs in London and elsewhere where exactly that has happened, because there has not been a trustee; you have had to pay the guys. That does not work if in fact there is not enough money to pay them! So that really is the point at which it is useful to have a trustee. I personally think there is a lot to be said for trustees. I think it is a great pity that countries do not use them and I think it is a great pity that at the sovereign debt level, sovereign countries have felt it below their dignity to have a trustee. I think that is wrong – I think it is a good idea.

Question – John De La Torre (Profinance Ltd, Wagga Wagga):

My question is directed to Robert Cornish. Looking at the Asian currency crisis and what is happening with the Japanese banks basically carrying a lot of risk across the rest of the Asian markets, one of the proposals being mooted is that, basically, the central bank should take on the debt and take a long term position. Do you think that that is a relevant thing and do you think it will have a stabilising effect?

Response – Robert Cornish (Speaker):

I think it would certainly send a very strong message to the market, but I do not think it is likely to happen – particularly, perhaps, in the case of Japan. The Japanese government, of course, has really demonstrated to date a marked reluctance to undertake any of the material structural reform that is generally recognised as being required in the Japanese economy. Interestingly enough, there was a prominent Japanese banking lawyer who spoke at the Inter-Pacific Bar Association meeting in Auckland a month or two ago. He gave a very interesting and really off-the-cuff resume of what was happening in the Japanese market. He said that he was very pessimistic about structural reform taking place. He cited two main reasons for this: First, an unwillingness on the part of the government to really get involved; and secondly, he felt that for cultural reasons it was just too heavy a load for the Japanese to take on board at this stage. Whether economic factors will drive them to it in the end remains to be seen. But it seems to be

the view of people far better poised to answer your question than I, that it is very unlikely that the Japanese authorities will intervene to that degree.

Response – Wayne Hoy (Speaker):

Just looking closer to home here, this is a particular challenge for the Reserve Bank and the Treasury at the moment. In fact it is being examined quite closely. They have to decide whether they are going to retire massive amounts of tradeable debt and not have the benchmarks that Philip Wood and Robert Cornish talked about. But more importantly than that, as we begin to recycle budget surpluses in this country, we have to decide whether our diplomatic and trade engagement with emerging economies (particularly in Asia) is going to be backed by capital. In simple terms, that means – is the Reserve Bank or the Treasury going to buy private and public sector debt that is issued out of those economies? We do not know the answer at this point. The weight of money suggests that we are going to have to do it, and, certainly from a practitioner's point of view, I would like to see the Reserve Bank stand up and take its place. When the Asian Development Bank issues debt securities in world markets, the central banks of the world in the developed economies are the first ones to buy their securities.

