

Data Availability and Use

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

RE: Submission to the Productivity Commission's Inquiry into Data Availability and Use

Dear Commissioners,

On behalf of the Australian Centre for Financial Studies (ACFS), please find attached an initial submission to your inquiry into data availability and use. The submission takes the form of a short brief written by our Research Director, Professor Kevin Davis, which discusses possible reforms to enhance the availability of data in the financial sector.

ACFS is an independent research centre of Monash Business School. We draw on expertise from academia, industry and government to promote thought leadership in the financial sector.

As part of our mission to improve linkages between universities and industry, each year we commission a number of research reports from leading academics on topics of interest to industry practitioners. This year, we have decided to commission three reports on data access and availability in the financial sector. The reports will cover the fields of:

- banking and capital markets;
- funds management and superannuation; and
- insurance

We expect that drafts of these reports will be completed by the end of November 2016, in time to respond to the draft report of your inquiry. We look forward to lodging a more comprehensive submission at that time.

If you have any questions, please do not hesitate to contact me

Sincerely,

Amy Auster
Executive Director

FINANCIAL POLICY BRIEF

Financial Sector Data Availability: Important Reforms Needed

FPB 2016 – 01: 29 July, 2016

The availability of good information about the Australian financial sector and financial institutions is crucial for efficiency, stability and policy. Unfortunately, the current situation is far from ideal, but could be easily improved with some legislative changes that would bring the Australian situation more into line with overseas practice.

Before identifying some significant possible changes, it is worth noting the benefits of improved data. They include:

- Improved market discipline of financial institutions by investors – which is one of the ‘three pillars’ of prudential regulation identified by the Basel Committee.
- Better ability of consumers of financial products and their advisers to identify the risks and suitability of those products.
- Enhanced research opportunities, which enable better understanding of the dynamics of the financial sector, governance etc., which in turn can lead to improved economic and financial policy.

Some obvious opportunities for improved data availability include the following:

Banking Sector Data

In many other countries such as the USA, regular reports of balance sheet and income statement data (known as “Call Reports” in the USA) are publicly available, and have encouraged the growth of intensive research into banking markets. The availability of that data is also beneficial for investors and counterparties in banking markets for risk assessment. For regulators, having an informed private sector, such that market prices can provide informative signals about risk assessments, should also be of value.

In Australia, the data submitted regularly by banks and other ADIs to APRA is required by APRA to be treated as confidential under the conditions of the relevant legislation. There is no obvious reason why this should be so because of commercial concerns of the banks – or if there are some elements of the data submitted which have commercial value, those could be excluded from public release.

Hence, it is recommended that the relevant legislation should be reviewed with the objective of removing the confidentiality conditions.

Share Ownership Data

In Australia, ASX listed companies provide information about their top twenty shareholders. Unfortunately, most of those listed are nominee companies holding shares on behalf of other

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investors. Information about ultimate owners is thus not generally available. This means that it is difficult to undertake research into corporate governance or, for example, to identify the extent to which shareholders are foreign or domestic residents.

While it may be argued that requiring public identification of shareholders has privacy implications, the counter argument is that the provision of limited liability to owners of an organisation is a privilege which should be offset by certain responsibilities/costs, including the requirement that identities of those sheltering behind limited liability should be known to those dealing with the company.

Securitisation Data

The RBA has required that loan-level data on mortgages backing mortgage-backed securities should be made publicly available. This has value both for investors in those securities and those wishing to undertake research into the market. Even though that requirement was brought in over a year ago, there has been little progress on that data being made available to researchers (at the marginal cost of provision).

Lack of Equivalent of USA SEC Edgar Facility for Company Data

Compared to the USA and other markets, there is no facility in Australia which provides information on company financial and accounting data and regulatory filings such as that available from the Edgar facility.

ASIC Business Register data

ASIC collects considerable amounts of financial and corporate data via its business registries. This is not generally available to researchers without significant cost. It can be argued that such data which is collected for regulatory purposes should then become a public good which is made readily available, rather than attempting to impose a “user pays” approach as currently applies. The government recognised the merits of free access to data collected for other purposes when it made access to ABS data free of charge.

Adopting the same approach to data collected via the ASIC business registries would be of significant public value – although achieving such a desirable outcome appears threatened by the current process of sale of the business registries to a private operator, for whom the value of purchase will reside partly in the ability to commercialise access to the data.

Other Areas

There are a range of other areas where data is collected by private or public entities which could be made available publicly for valuable use. In many of these, privacy issues are important, but this raises the question of whether there is a public policy case for government provision (or support) of data/systems infrastructure which would enable wider distribution of anonymised data for research. Some potential areas include superannuation information, credit data, other registries (such as the PPSR) and insurance data.

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Social cost benefit analysis of the merits of increasing availability of various types of finance sector data (and mechanisms for doing so) is warranted.

This Financial Policy Brief was prepared by Professor Kevin Davis, Research Director of the Australian Centre for Financial Studies.

ACFS Financial Policy Briefs (previously called Financial Regulation Discussion Papers) provide independent analysis and commentary on current issues in financial regulation with the objective of promoting constructive dialogue among academics, industry practitioners, policymakers and regulators and contributing to excellence in Australian financial system regulation.

For more in this series, visit: australiancentre.com.au/publications

About the Australian Centre for Financial Studies

The Australian Centre for Financial Studies (ACFS) is a not-for-profit research centre affiliated with Monash Business School.

ACFS draws on expertise from academia, industry and government to promote thought leadership in the financial sector. As specialists in leading-edge finance and investment research, it aims to boost the global credentials of Australia's financial industry, bridge the gap between academia and industry, and support Australia as an international centre for finance practice, research and education.

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