



**ASIC**

Australian Securities & Investments Commission

# The challenge of driving global economic growth

*A speech by Greg Medcraft, Chairman,  
Australian Securities and Investments Commission*

*US Securities Industry and Financial Markets Association Symposium  
15 April 2016*

## **CHECK AGAINST DELIVERY**

### **Introduction**

I want to touch on three topics – which together are about the challenge of driving global economic growth:

- the first is about the role of capital markets
- the second is about the role of digital innovation, and
- the third is about cross-border regulatory cooperation.

I will be touching on these topics wearing two hats.

The first is as Chair of the Australian Securities and Investments Commission – Australia's corporate, markets, financial services and consumer credit regulator.

The second is as Chair of the Board of the International Organization of Securities Commission – IOSCO. IOSCO brings together the world's securities regulators from over 115 jurisdictions accounting for over 95% of global capital markets by value. It is recognised as the global standard setter for the securities sector. Its key role is to develop, implement and promote adherence to internationally recognised standards for securities regulation, and it works extensively with the G20 and the Financial Stability Board on the global regulatory reform agenda.

On each of these topics, I'd like to bring an Australian perspective in terms of what we have done domestically and through our international leadership roles.

We've taken these leadership roles very seriously – and have wanted to make a real difference.

As a relatively small, developed, but open economy, what happens in our region and globally, matters to us. It's for that reason we have wanted to play a role in international forums – through our leadership of the G20 and, in my case, the leadership of IOSCO.

Leadership has given us the opportunity to set the agenda – not only for ourselves but for the many other smaller nations in a similar position.

## Capital markets and growth

So, let me turn to the first theme – the role of capital markets in driving economic growth.

### IOSCO initiatives

At IOSCO, we recognise the role of capital markets in supporting growth, as well as the role that regulation plays in driving that growth.

Through my leadership of IOSCO, I have emphasised and championed the idea that our collective objective as regulators is to make sure that capital markets do their job of supporting growth.

We do this by ensuring:

- investors can have trust and confidence in those markets
- that markets operate in a fair, efficient, transparent and orderly way, and
- the risks they pose to the financial system are mitigated.

This has driven our work in developing guidance across a range of areas, and allowed a sharpened focus on:

- understanding the role capital markets play in supporting, for example, long term finance and SME activity, and
- working with the FSB in the asset management space, to ensure concerns about the stability of the financial system take into account the collateral impact of regulatory measures on growth.

A key priority for IOSCO this year has been infrastructure finance.

As a global community, we need to deal with the massive financing gap between what is needed to fund essential infrastructure – particularly greenfields investment – and the funding available.

I see capital markets as having a role to play here, alongside government and the banks (the more traditional sources of this type of funding).

IOSCO is currently developing a mandate to look at what regulators can do to encourage and support greater investment in infrastructure, particularly in the greenfields space by institutional investors in emerging markets.

## **Australia's G20 initiatives**

Growth and how it can be achieved were also centrepieces of Australia's 2014 presidency of the G20.

In 2014, the G20 leaders set a global growth target of a further 2% per annum by 2018. They identified investment in infrastructure as an important contributor to that target and encouraged the development of market sources to finance the developments.

Significant in this context was the establishment of the Global Infrastructure Hub in Sydney. The aim of the Hub is to foster collaboration between the official sector and the private sector to improve the functioning and financing of infrastructure activity and to help grow the global pipeline of quality, bankable infrastructure projects.

At present, the Hub is developing a knowledge-sharing network to aggregate and share information on infrastructure projects and financing between governments, international organisations, development banks, national infrastructure institutions and the private sector – a really great Australia-led initiative.

## **Innovation and growth**

The second topic I want to touch on is the role of innovation, particularly digital innovation in supporting growth.

We are going through what the World Economic Forum has described as the Fourth Industrial Revolution – a revolution driven by the huge opportunities generated by digital developments. While digital innovation is not new, the scale, the breadth, the speed and the potential it currently offers is unprecedented.

Innovation can improve the efficiency and accessibility of our markets and inevitably drive growth.

Consumers will have a lot to gain. Technology has made possible new products and services which streamline our lives, make things more convenient and lower costs.

Distributed ledger (or 'blockchain') technology is a great example of this development and offers enormous opportunities to transform our markets and build growth.

## **IOSCO initiatives**

IOSCO under my leadership has been very active in this space. We have discussed the challenge of fintech, and more particularly blockchain, at Board meetings. Our Growth and Emerging Markets Committee is progressing work on the impact of digitisation in the markets its members regulate. Our Committee on Emerging Risks has started work on understanding the opportunities offered by blockchain.

We have also recently published an overview across all the areas we regulate about steps we have taken on cyber resilience. This will form the basis of guidance the Board will discuss developing when it next meets in Lima.

Of particular interest is our work with the CPMI on measures to enhance the cyber resilience of financial markets infrastructure.

## **Australia's initiatives**

Industry and regulators have also been active in this space in Australia.

Market participants are investing heavily in understanding the use which can be made of blockchain. The ASX is a great example – exploring how its trading and settlement systems might employ blockchain.

ASIC has also taken an approach based on engaging with our markets and market participants to understand new technologies. Our philosophy has been to help harness the opportunities – while mitigating the risks these developments pose.

Let me touch on three initiatives.

The first – which is very much the cornerstone of our approach – was the establishment of ASIC's Innovation Hub in April last year. The Innovation Hub – staffed by senior ASIC officers – aims to help fintech start-ups navigate the regulatory system we administer. It provides fintech start-ups with informal assistance through the early stages of their development, including providing a dedicated point of contact, guidance through the licensing and application process and through a fintech start-up's first year of operation in relation to regulatory initiatives. In less than a year we have worked with 76 start-ups.

The Hub allows us to encourage innovation that may benefit customers, without putting at risk investor and consumer trust and confidence, and the fair, orderly and transparent operation of our markets. It also allows us to better understand developments, the opportunities and risks they pose and whether and how we might tailor our regulatory approach. We have, incidentally and in parallel to establishing the Hub, also released a consultation paper with a draft regulatory guide on regulating robo-advice, published guidance on marketplace lending and FAQs for fintech businesses, and established a Digital Finance Advisory Committee.

The second initiative – which I will come back to later in my comments – is an Innovation Hub cooperation agreement we concluded with our UK counterparts, Financial Conduct Authority, last month on the activities of our respective Innovation Hubs.

The agreement sets up a framework under which our Hubs refer innovative fintech businesses to each other and each undertake to offer support through the authorisation process and other assistance for the first year of operation of the business. It also commits us to sharing information about fintech innovations.

The third initiative is in the area of cyber resilience. Last year we provided our regulated population with advice on how they might improve their cyber resilience. This guidance included a set of health check prompts to help firms consider and assess their cyber resilience (taking the NIST framework in this country as a starting point).<sup>1</sup>

Just last month, ASIC released its first assessment report on the cyber resilience of ASX and Chi-X.<sup>2</sup> The report also highlights emerging good practices being implemented by a wider sample of organisations within the financial sector.

## Cross-border cooperation

The third and last topic I want to touch on is the significance of global cooperation in ensuring capital goes – despite political and geographic borders – to where it is most needed.

Our markets have become increasingly globalised, and this is being accelerated by developments in digital technology.

Globalisation offers real opportunities. It expands the range of investment options available to investors. It increases the range of funding options available to the real economy.

However, as regulators we face a couple of challenges. The first is ensuring we regulate in a way that both ensures investor trust and confidence and fair, orderly and transparent markets while not impeding the benefits of cross-border activity to investors and issuers alike. The second is the simple fact that we are limited by our borders. If activity which threatens our objectives happens beyond our borders, we are limited in what we can do alone.

Addressing these challenges and delivering on our objectives requires cooperation, collaboration and coordination with regulators in other jurisdictions.

Working with others means we can enhance the opportunities available to our firms and markets, including through reducing the regulatory burdens on cross-border activity, and therefore more effectively enforce and build the integrity of our markets.

## IOSCO initiatives

Cross-border cooperation is an area in which IOSCO plays a key role.

IOSCO has built, and continues to develop, its frameworks for cooperation in enforcement matters via the Multilateral Memorandum of Understanding (MMoU), as well as in supervisory cooperation matters.

---

<sup>1</sup> [Report 429](#) *Cyber resilience: Health check* (REP 429).

<sup>2</sup> [Report 468](#) *Cyber resilience assessment report: ASX Group and Chi-X Australia Pty Ltd* (REP 468).

Work is continuing on the enhancement of standards and guidance as the basis of equivalence assessments between member jurisdictions, to promote global regulatory convergence.

### **Australia's initiatives**

ASIC has long been active in addressing the challenges posed by cross-border regulation.

We cooperate extensively with other IOSCO members, whether under the MMoU or through Regional Supervisory Colleges.

Let me touch on two recent sets of initiatives.

The first is about facilitating opportunities for our regulated population. I mentioned earlier our Innovation Hub cooperation agreement with the UK Financial Conduct Authority, which is about easing the challenge our innovators face in accessing market and the world stage.

The second initiative is about reducing barriers to entry through mutual recognition agreements. We have current arrangements in place with Hong Kong in relation to the marketing of collective investment schemes and with New Zealand in relation to the marketing of securities between our countries.

I have initiated discussions with the US Securities and Exchange Commission intended to explore how this experience might be applied to retail bond offerings into each other's markets. The idea would be for us, ideally, to be able to use the same offering documents in both markets (and so reduce some of the costs associated with cross-border issuing).

The benefits and opportunities of doing this would be significant for both US and Australian issuers and investors. For US issuers, it will provide access to the growing self-managed pension market in Australia. For Australian issuers, it will provide access to the significant range of investment opportunities in the United States.

## **Conclusion**

In summary, I think it is crucial to emphasise the interrelated nature and importance of the three topics I have covered to meet the challenge of driving global economic growth.

Measures to ensure capital markets are doing their job of supporting the real economy, to facilitate and support digitally driven innovation, and to facilitate cross-border cooperation all have a vital role to play in this.

We in Australia and IOSCO are both committed to developing these measures and playing our part in building the global growth to which we aspire.

Thank you for your time.