ASIC

Australian Securities & Investments Commission

Global regulatory coordination and the value of global forums in a period of rapid change

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

The Bund Summit on Fintech: Technology-Driven Global Financial Transformation
(Shanghai, People's Republic of China)
9 July 2017

CHECK AGAINST DELIVERY

Introduction

Good morning ladies and gentlemen.

I would like to thank the Shanghai Institute of Finance for inviting me to speak today. I am delighted to be here among so many eminent participants, and I look forward to sharing some of my thoughts about technology-driven global financial transformation. In particular, I want to give you a global regulatory perspective on the challenges we face in this time of rapid technological change.

In my role as the Chairman of the Australian Securities and Investments Commission, and previously, as the Chair of the IOSCO Board, I have seen how effective regulators can be when we work together to solve problems. Global challenges often require global solutions. As market regulators collectively, our fundamental objective is to allow markets to fund the economy, and in turn economic growth. We do this by:

- promoting investor trust and confidence
- ensuring fair, orderly and transparent markets, and
- mitigating financial system risk.

The risk is that if we allow too much fragmentation in the system – for example, as a result of differences in national approaches, or along technology lines – we will not be able to realise the benefits to our fundamental objective of the new technologies that are currently being developed.

So today, I want to cover two main topics:

- First, I will outline why I believe global regulatory cooperation and coordination is essential to realise the benefits of the technological revolution and transformation.
- Second, I will talk about the work that regulators are doing to prepare for the digital age and improve international cooperation through IOSCO.

Global regulatory coordination

Some of you in the audience might ask why global regulatory coordination matters. Our markets are not the same, they each have their own unique conditions and characteristics, so what do we gain by working together?

The first point I want to make about regulatory coordination or harmonisation is that I am not talking about identical laws and regulations. Because of differences in our regulatory and legal frameworks and philosophies, having the same laws in place everywhere is not realistic.

However, what we can and should aim for is ensuring our laws and regulation are closely aligned. What I really mean by this is that regulators need to look holistically at how we supervise and enforce the law to ensure we arrive at common outcomes.

On why coordination is important, especially in the area of fintech, I think the answer lies in the basic role of regulators, and the potential impact of fragmentation.

The role of market regulators

In my view, market regulators should seek to create the right environment to encourage fintech and innovation to allow markets to fund the economy and therefore economic growth, while also ensuring that investors can have trust and confidence in markets and that those markets are fair, orderly and transparent.

It is not always easy to find a balance between these goals. Fintech businesses do not always fit with traditional business models and regulatory frameworks. Fintech start-ups sometimes find there are regulatory barriers that make it harder to develop, test and introduce new financial products and services into the market.

As regulators, it is important for us to listen to industry – we are continuing to engage to ensure we understand new developments. But, before we impose new rules or relax old ones, we have to understand new technologies and their impact on our markets. In this way, we can gear our regulatory frameworks to provide adequate safeguards while still encouraging innovation.

Also, post-GFC, regulators have focused their attention on stability, which is critical, but now is the time to also look at the growth side of the equation.

So, in order to keep pace with the changing world around us, regulators must be proactive and forward-looking in understanding how our actions can influence the ability of fintech businesses to grow and flourish to the benefit of consumers and the market.

Fragmentation

The modern financial system is global in nature. We now take for granted the ability for investment to flow across borders. This system we have built has helped to bring prosperity to many parts of the world.

But fragmentation can occur when there are very significant differences in regulatory approaches between jurisdictions. And this brings problems.

Fragmentation is inefficient and costly. It means that regulated firms have to consider big differences in regulation when engaging in cross border activity. Fragmentation also creates hurdles for issuers and investors wanting to access markets other than their own. This can reduce the range of opportunities for investors, as well the sources of finance that are available to them.

We are all here today because we are interested in the ways in which technology can transform and bring improvements to the financial system. In new technological solutions, we can make our lives more productive. We look for ways of doing things that are less costly, and more streamlined, quicker and smarter than the systems or processes we had before. However, an inefficient, fragmented financial system has the potential to undermine the benefits we are trying to achieve with the use of new and improved technologies.

Global regulatory coordination efforts are a big way of preventing the risk of fragmentation from becoming a reality. These efforts can take a number of forms.

ASIC has recently entered into a number of bilateral fintech cooperation agreements with regulators in other jurisdictions. The regular dialogue these agreements facilitate is essential to help us share information and stay up to date with what other regulators are doing in this space.

Global regulatory bodies such as the IMF’s High Level Advisory Group on Fintech and IOSCO play an important role in encouraging coordination by bringing representatives from different countries together to research and discuss the challenges we face, and then agree on common standards and principles. This neatly leads to the second topic I want to cover today, which is the work that regulators are already doing through IOSCO to prepare for the inevitable transformation of the financial sector.

The value of global forums in times of rapid change

IOSCO is an international standard-setting body that brings together the world’s securities regulators. Together, the full IOSCO membership regulates more than 95% of the world’s securities markets in more than 115 jurisdictions.

In addition to setting standards for the securities sector, IOSCO does a wide range of other things including research, technical assistance, education and training to help build sound global capital markets, and a robust global regulatory framework.

Fintech

On fintech, IOSCO has already taken a number of steps to help prepare the markets we regulate for the future. I want to take a moment to outline three of our major areas of work:

- the IOSCO *Research Report on Financial Technologies (Fintech)*
- the Enhanced Multilateral Memorandum of Understanding (EMMOU), and
- data analytics.

Leading and encouraging better thinking by regulators on the new technology challenges that we face is key for IOSCO.

Most recently, for example, IOSCO completed and released a detailed research report on fintech in February this year. This report is available on the IOSCO website: see *Research Report on Financial Technologies (Fintech)* (PDF 3 MB).

In this report, IOSCO considered the potential impact of a wide range of technologies on the financial system. Importantly, the last chapter of this report also considered the implications for regulators.

One of the implications for regulators is that the global nature of fintech may create or contribute to challenges related to regulatory consistency and cross-border supervision and enforcement. There is also a potential risk of regulatory arbitrage where our frameworks differ.

Global regulators, in my view, are adamant that this should not happen – but we have to remain alert to stifle any trend like this developing. Regulators in different jurisdictions can help reduce these risks by considering where we might be able to harmonise our frameworks and approaches.

Another key point the report made was that in addition to greater international cooperation, different regulators within each jurisdiction may also need to engage in greater national regulatory coordination efforts where technology solutions cut across industry lines.

EMMOU

The second way we are working to improve regulatory coordination in the midst of a technological revolution is building better frameworks to allow regulators to share information.

Currently, 112 IOSCO members are signatories to the global Multilateral Memorandum of Understanding (MMOU). Under this MMOU, securities regulators can provide information and assistance, including records, to one another to help combat cross-border fraud and misconduct.

IOSCO members find this framework useful and effective. In 2015 alone, signatories made 3,203 requests for information from other regulators, compared to only 56 requests in 2003.

However, in response to the many technological, societal and market developments since 2002, IOSCO decided to create a second agreement that reflects an enhanced standard of cross-border information exchange – the Enhanced Multilateral Memorandum of Understanding (EMMOU). The final text of this agreement was approved by IOSCO in March this year.

The EMMOU gives regulators new powers to safeguard the integrity and stability of our global markets in this digital age. In addition to abilities to share audit documents, compel physical attendance for testimony and freeze assets, signatories can agree to share metadata records obtained from telephone and internet communications providers. The ability to obtain and share this type of information is crucial to successful investigation work in today's world. Many market abuse investigations rely on subscriber records and traffic data to show the passage of information.

We must not forget – and I certainly don't – that regulators like ASIC are law enforcement agencies that need cross-border help when doing our work. And personally I'm very proud that this great example of international cooperation has come into being on my watch as IOSCO Chair.

Data analytics

The last area of IOSCO's, and indeed ASIC's, work that I want to mention is data analytics. In order to keep pace with industry, regulators need to develop more sophisticated tools and methods of collecting and analysing data.

On collecting data, thinking about data field standardization, machine readable documents, use of data portals and the potential of distributed ledger for collecting industry data. On analytics, thinking about the use of machine learning pattern recognition and predictive behavioural analysis – capable of digesting huge data sets to give us new insights into how markets, gatekeepers and investors behave.

IOSCO is now considering how regulators can effectively share information in this complex but critical area, in a way that ensures national regulators are not left behind – because in our globalised world, you are only as strong as your weakest link.

ASIC has established a data science lab to test new regtech data analytics tools, working in conjunction with our Chief Data Officer.

Data collection and analytics will change how we all perform our regulatory functions – for the better.

Conclusion

To conclude, I want to leave you with the same words Chinese President Xi Jin Ping used earlier this year when he gave an address at the World Economic Forum Annual Forum in Switzerland.

I had the privilege of being a member of the audience during President Xi's address, and I can think of no better way to emphasise the importance of working together to face global challenges. This is what he said:

> 'We should join hands and rise to the challenge. History is created by the brave. Let us boost confidence, take actions and march arm-in-arm toward a bright future.'

Thank you.

