



ASIC

Australian Securities & Investments Commission

Opening Statement on ASIC's Priorities for the Next 12 Months

By Mr Tony D'Aloisio, Chairman
Australian Securities and Investments Commission to the
Senate Standing Committee on Economics

Wednesday, 30 May 2007

Thank you Chairman. I would like to take the opportunity to make an opening statement.

I am honoured to have been appointed as Chairman of ASIC for the next 4 years. I am gratified by the support I have received for my appointment. I will do my utmost to uphold the values of such an important position for Australia's corporate and capital markets.

Working constructively with our broad range of stakeholders, including business and consumers, business and consumer associations, Government and other agencies, I hope that over the next 4 years, ASIC's actions will further improve business integrity in Australia. Our vision is that through our efforts and the efforts of our broad range of stakeholders, we will not only maintain but improve business integrity in Australia and, when benchmarked against global best practice, Australia's position will be at the top.

I would like, first, to congratulate the Commission (under my predecessor Jeffrey Lucy and Deputy Chairman Jeremy Cooper and earlier, with them, Berna Collier) and the Executive Directors and all in the ASIC team (employees) for their work in (and dedication to) continuing to build a very successful organisation over the last 3½ years. Three key achievements stand out in my mind over that period:

- 1 Diligence in pursuing those companies and individuals who breach the law. This is demonstrated by tangible results, including a significant record of success of cases launched. A clear example is HIH.
- 2 Laying the foundations for a more proactive ASIC in working with participants to lift standards of corporate behaviour and, thus, market integrity. A clear example is the focus on compliance and surveillance in the superannuation industry. Another is the introduction of an audit regulation team.
- 3 Establishing the framework for greater international cooperation. An example is the participation in a number of key initiatives with the International Organization of Securities Commissions (IOSCO).

These were achievements over and above business as usual and internal improvements aimed at sustaining the organisation.

Jeffrey Lucy, I believe, can be proud that his legacy as Chairman will be that he left ASIC, in all respects, a better organisation than when he became Chairman some 3½ years ago.

His continuation as a Commissioner will provide a rich source of corporate history and wise counsel which will be important to me, and to Deputy Chairman Jeremy Cooper. We intend to make full use of his skills and experience as a contributing and continuing Commissioner.

Let me turn to my term as Chairman which commenced on 13 May 2007 (2½ weeks ago). It is early days and my views are still forming. Nevertheless, what I have seen so far has led me, with the Commission and the senior team at ASIC, to identify 6 things (or priorities) we will do in the next 12 months.

Six priorities we will focus over the next 12 months

1. Continue with business as usual for ASIC but with the key objective of lifting the operational effectiveness and service levels of ASIC for all stakeholders. Put simply, this will be to do everything we do better, with clearer outcomes, measured against stakeholder feedback. This specific focus should translate into outcomes of improved and more cost-effective services for all those customers and stakeholders (e.g. small and medium companies) who deal with ASIC.
2. For retail investors (in particular 'baby boomers' retirees and the generation following them), to develop initiatives to assist them to better manage and protect their investments and wealth. The growth in direct retail investment (households and small superfunds) has increased significantly (see attached chart). This can be seen in such things as the number of smaller superfunds, retail trading volume on ASX and retail investment in the unlisted sector. We are also seeing more sophisticated products aimed at retail investors such as derivatives, warrants, contracts for difference (CFDs), margin loans and hybrids. These developments have led us to reassess how we can work to better assist this retail sector.

We are adding to the initiatives we have in this sector. We are setting up a special team (to be led by a senior person) to examine the risks for the retail investor and respond with specific projects to help address these risks. Examples of responses which will be assessed and implemented will be:

- Quality advice and investor education on such things as the importance of diversifying risk through asset allocation and understanding risk and reward premiums for particular asset classes (e.g. debt securities).
- Better disclosure — simpler and more targeted.
- Blitzes on advertising of complex products targeted at the retail investor.
- Early detection and elimination of illegal operators.

We expect that initiatives such as these will over time translate into a more investment-wise retail sector, with better access to quality advice and better equipped to manage investments and protect wealth.

3. For all investors, to continue to maintain and improve confidence and integrity in Australia's capital markets with new investigative and other techniques in the area of insider trading and market manipulation. Australia's stock of financial assets is now heading towards \$3 trillion*. The ASX exchange-traded equity markets account for a significant proportion of this financial stock. We also have significant derivatives markets and OTC markets. ASIC monitors and enforces laws relating to insider trading, continuous disclosure and market manipulation. While we have had some successes in deterring this behaviour, we feel we need to improve.

A special team (to be led by a senior person) is being established to determine what additional actions ASIC (in cooperation with ASX) can take in the areas of

* Source ASX

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continuous disclosure, market manipulation and insider trading. Part of the work of the team will be to assess new investigation techniques, building on best practice overseas. The team's remit will be broad. It will cover both exchange-traded products and over-the-counter markets for equities, derivatives and other financial products.

4. For small and medium businesses, ASIC is responsible for the legal 'infrastructure' of the 'real economy' (i.e. that part of the economy that produces goods and services) and the 'financial economy' (i.e. financial markets relied on by the real economy). Examples are company registration, registration of charges, issue of licences, relief orders and so on. These are all important administrative functions, many of which are conducted in ASIC's processing centre in regional Victoria, at Traralgon.

Another special team (to be led by a senior person) will assess how we can use new technology to improve existing services, add new services and reduce costs – that is, to reduce 'red tape' in providing this infrastructure. We believe there are important benefits like these to unlock for small and medium businesses.

5. For all investors, to improve what we can do to facilitate inward and outward investment in our capital markets. As an importer of capital and now with more of our investments going overseas, it is important to ensure there are only the necessary minimum roadblocks to investment flows, commensurate with adequate protection. This should facilitate both more liquid Australian markets and better access to offshore investment opportunities for Australia's investment pool, generating more competition, diversification and better overall returns for Australian investors.
6. Finally, and most important, over the next 9 to 12 months while these things are going on, there will be an overall review of ASIC's strategies (its priorities and initiatives). With a new Chairman, a fresh set of eyes can look at the organisation. At the same time, our markets have changed significantly and are continuing to evolve at a rapid rate. The review will be conducted within the existing legislative framework of ASIC's roles and functions. It will be very much asking the question: where does ASIC need to be in 3 to 5 years? We see this as an important initiative if we are to continue to build on our success to date.

A key feature of this strategic review will be an extensive survey of external stakeholders, to assist us to assess our priorities, what we do well and where we may need to improve.

My approach with these 6 priorities may not surprise you, as it is similar to the approach I adopted in my previous roles, particularly my last role as CEO of ASX: that is, to identify the immediate priorities and get on with those and, while doing so, to conduct a review of the organisation using a 'fresh set of eyes', and to develop scorecards to measure and report on outcomes achieved.

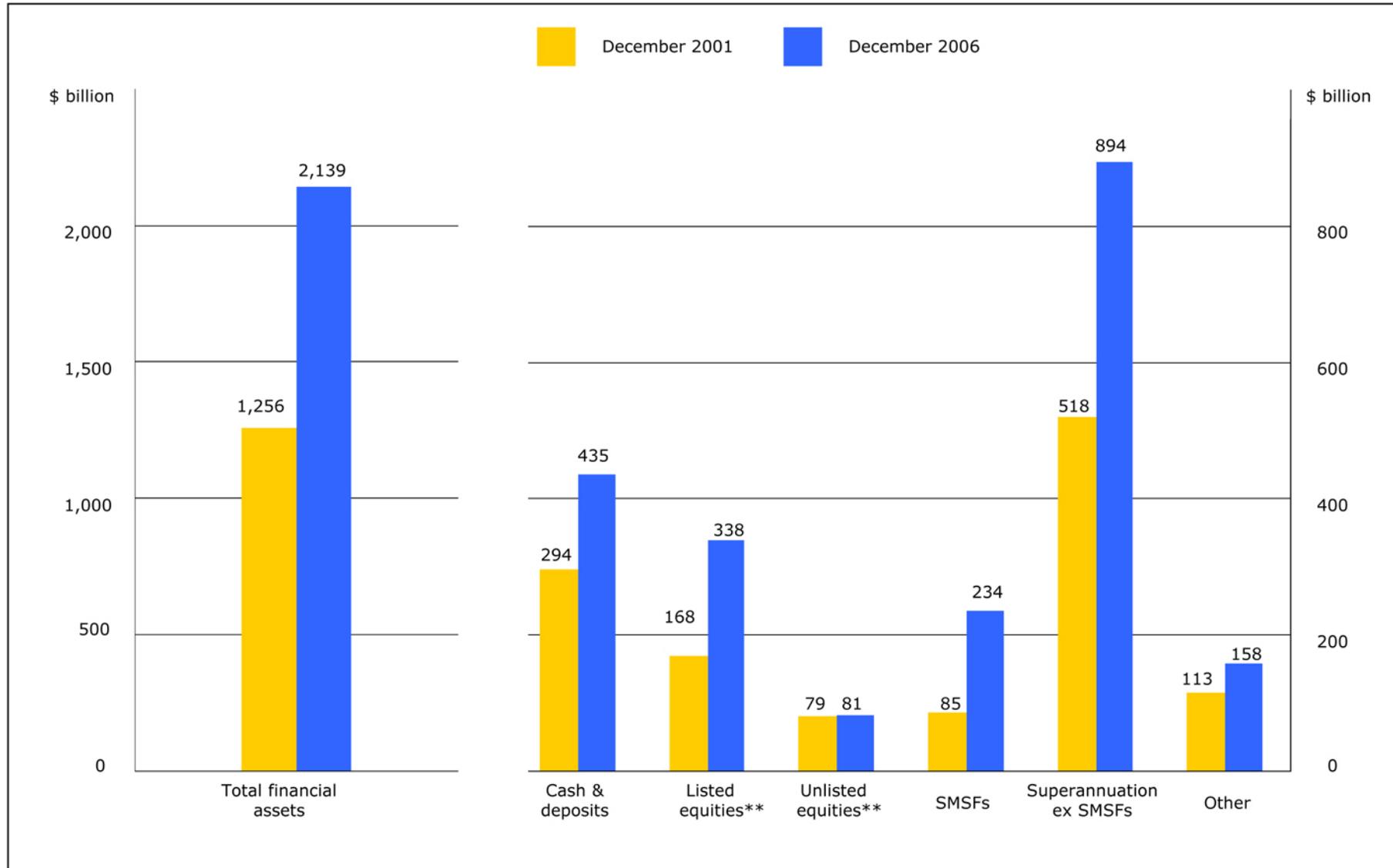
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I hope this gives the Committee an indication of the approach and priorities we will take in the next 12 months. In essence, it builds on ASIC's success to date but signifies a new set of priorities on operational effectiveness, improving results in areas of market manipulation and insider trading, assisting retail investors, facilitating capital flows and reducing 'red tape'. We will also review, with external stakeholder input, ASIC's priorities and initiatives for the next 3 to 5 years, both in the context of ASIC's existing legislative framework and, importantly, in the context of the continuing evolution of Australia's corporate and capital markets.

Thank you Chairman. I would be happy to take the Committee's questions on ASIC and its future directions before I make my next statement on Westpoint, Fincorp and Australian Capital Reserve.

Financial Assets Held by Retail Investors

Growth over past five years*



* 2006 total does not match the figure for total financial assets in the previous graph. This is because only published figures were used to facilitate cross-time comparison, while the previous graph contained internal ASIC estimates for debentures on issue.

** Includes units in trusts.

Sources: ABS; APRA.