



ASIC

Australian Securities & Investments Commission

Australian Institute of Management Fellows' Breakfast

*Speaking notes for address by Greg Medcraft, Chairman, Australian
Securities and Investments Commission*

Zinc at Federation Square, Melbourne

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Introduction

Thank you Carolyn Viney of Grollo Group for having me along this morning to speak with the AIM Fellows.

It is great to be back in Melbourne.

As some of you might know, in a past life I was an investment banker and I worked all over the world and now live in Sydney.

But I was born and bred in Melbourne and for a time I was Mayor of Box Hill. I grew up in North Melbourne, Surrey Hills and Avondale Heights.

I would like to tell you I played good footy but I was not much of a sportsman. But I did end up supporting Richmond, which when you consider my abilities then and their ability now, seems to be present a neat symmetry.

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Ladies and gentlemen, I would also like to recognise the work AIM does in bolstering management training, particularly the Institute's expert education and training services.

These sorts of initiatives help small businesses grow and become bigger business and this is done by creating outstanding managers and leaders.

We are in uncertain economic times and this puts pressure on organisational leaders.

And because of this, our organisational leaders need to keep investing in themselves and their peers and make a commitment to learning and development.

And that is especially crucial in passing on skills to the younger men and women coming through the management ranks.

That is something that AIM has been helping to do consistently since it was formed in 1941.

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As most of you know, I have been in this role for about 10 weeks. I took over, formally, from Tony D'Aloisio, in mid May.

First, I want to acknowledge Tony D'Aloisio's legacy.

Strategic Review

- Made ASIC more stakeholder focused

GFC

- Short selling ban
- Frozen funds

Major cases

- Westpoint, James Hardie, Opes Prime, AWB, Fortescue and Storm, to name just a few
- Not all wins, but had a major deterrent effect.

ASIC Strategic Framework

Under my watch, ASIC will focus on three key outcomes:

Outcome 1 – confident and informed investors and financial consumers.

This has three areas:

Sub topic 1: Education

Education: Investor responsibility for their investment decisions remains core to our system. Understanding risk / reward and diversification is paramount.

- ‘MoneySmart’ – 550,000 unique visitors since its March launch.
- Helping Our Kids Understand Finance
- New media – Youtube, Twitter and Facebook
 - 602 followers on Twitter.
 - 324 people 'liking' ASIC on Facebook, and
 - 4000 total views of our 14 YouTube videos.

Sub-topic 2: The gatekeepers

Holding the ‘gatekeepers’ of the financial service system to account is another important aspect.

Gatekeepers, in the widest definition of the term, being held to account. This includes accountants, directors, advisers, custodians, product manufacturers, market operators and participants.

Taking action where gatekeepers do not meet their responsibilities

Auditors inspection report: Released 29 June. 21 audit firms inspected between 1 July 2009 and 31 December 2010. 17 per cent of engagement files of large firms did not contain sufficient appropriate audit evidence and for other firms the figure was 31 per cent. ASIC identified three broad areas where improvements need to be made:

- the sufficiency and appropriateness of audit evidence;
- the level of professional scepticism exercised;
- evidence on audit engagement files about the nature, timing and extent of engagement quality control reviews.

Centro: ASIC acted where we believed that the directors' behaviour did not meet the expectations of the law. Directors play an important role and they must not uncritically adopt the work of management on major issues for which they are responsible. The key elements of the financial position of the company are things directors should understand and be able to communicate accurately to the market.

More generally

- *Scepticism:* Question the information you are provided, test the views presented to you
- *Accounting knowledge:* You are expected to have financial literacy and basic accounting knowledge. If not, retrain.
- *Accountability and control:* You are perceived by shareholders to hold the executive to account. This is your responsibility.

Self-regulation has a significant role to play and industry standards are critical in terms of complementing regulation. They provide guidance on how to comply with the law and go beyond the law in setting standards, particularly in areas such as ethics.

Sub-topic 3: Consumer behaviour

- *Recognising how investors and consumers make decisions*
 - *Advertising:* we will soon consult on some practical best practice guidance for advertising financial products and services.
 - *New media:* YouTube and Twitter (explain risks)
- *Business model and its risks.*
- *Suitability*

Outcome 2 – fair and efficient financial markets.

There are two parts to this:

Sub-topic 1: Market supervision

In August 2010, ASIC increased its role in the facilitation of fair and efficient markets by assuming the market supervision function previously performed by ASX.

With the help of new systems and a top quality Market & Participant Supervision team, the transition last August occurred smoothly.

- From January to June 2011 there were 23,494 trading alerts, with 121 matters requiring further consideration.
- Some 35 matters were referred for investigation. These matters involved potential insider trading (17), market manipulation (6), possible breaches of the market integrity rules (10) and of continuous disclosure obligations (2).

Sub-topic 2: Market competition

- March 2011 – ASIC published its competition timetable.
- April 2011 – ASIC published the Market Integrity Rules.
- October 2011 – ChiX starts operating (at the earliest).
- ASIC continues to engage with industry on a number of issues relating to implementation of the new Market Integrity Rules.

Outcome 3 – efficient registration and licensing with particular focus on small business.

Let me turn now to the third ASIC priority, which is efficient registration and licensing.

A large part of our organisation is dedicated to collecting corporate and company information – and information on regulated professions – so that it is available to others.

Statistics

ASIC's registers hold details of:

- over 1.8 million companies
- 12,000 financial services and credit licensees
- about 6000 registered auditors and liquidators, and much more.

In the past year our public registers were searched more than 65 million times, while we handled over 1 million public enquiries and facilitated almost 2 million registry updates.

How do we set our priorities?

Those are the key outcomes I want to promote over the coming five years.

I also wanted to give you some background on our approach to achieving these outcomes. These are:

1. our legislative responsibilities;
2. systemic or regulatory risk;

resilience – Benjamin Franklin: “an ounce of prevention is a worth a pound of cure”
3. the expectation gap between what stakeholders expect and what ASIC is doing; and
4. government policy objectives.

The key drivers we use to achieve the outcomes are:

- engagement with industry and stakeholders;
- surveillance;
- guidance;
- education;
- deterrence – we will continue to focus on taking on the big cases and pursue wrong-doers.

We recently decided to publish guidance on how we approach our compliance and deterrence role.

- Evidence
- Cost vs regulatory benefit
- Level of harm or loss; and
- policy advice to Government.

Conclusion

Ladies and gentlemen, I hope you can see from what I have talked about today, ASIC will continue to work hard to meet our priorities over the next few years:

- Confident and informed investors and financial consumers;
- Fair and efficient financial markets; and
- Efficient registration and licensing.

So, thank you for the opportunity to speak to you today.

I look forward to working with you over the coming years.

I am happy to take questions now.