



ASIC

Australian Securities & Investments Commission

Meeting our long-term challenges: ASIC's Corporate Plan

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CHECK AGAINST DELIVERY

Ladies and gentlemen, it's a privilege today to be at the Australian Chamber of Commerce and Industry lunch.

My topic is – 'Meeting our long-term challenges: ASIC's Corporate Plan'.

In August we released our Corporate Plan for the next four years. It communicates our thinking on our long-term priorities and the challenges shaping our strategy, and responses over this period.

To give you more insight into our plan for the next four years, I would like to talk about:

- ASIC's role in assisting investor trust and confidence in the financial system, and
- our challenges over the next four years and ASIC's strategy to meet these challenges so we can achieve our strategic priorities.

ASIC's role in assisting investor trust and confidence

First I would like to talk about ASIC's role in assisting investor trust and confidence.

ASIC's fundamental objective is to allow markets to fund the real economy, and in turn economic growth. This contributes to improved living standards for all Australians.

Markets cannot perform this purpose if investors and issuers do not have trust and confidence in those markets. Ensuring trust and confidence in our markets is at the heart of everything we do. It is what drives the excellent men and women who work at ASIC and is reflected in our twin regulatory strategic priorities of:

- promoting investor and financial consumer trust and confidence, and
- ensuring fair, orderly, transparent and efficient markets.

Our challenges and ASIC's strategy to meet these challenges

However, in achieving our strategic objectives, we see challenges that can threaten this trust and confidence. These challenges will shape our outlook and strategy for the next four years. We aim to respond to these challenges and, in doing so, achieve the best risk resilience in the system we can with the resources and powers we have.

I will talk about each of the challenges and how we will respond to them.

Conduct risk: Getting the right balance between a free market-based system and investor protection

Our first challenge is conduct risk, and getting the right balance between a free market-based system and investor protection. The three cornerstones of the free market-based system are investor responsibility, gatekeeper responsibility and the rule of law.

On the one hand, we will focus on investor responsibility. We will use behavioural economics to understand how people make choices. These insights help us understand that in everyday decisions – including financial decisions – all of us are influenced by personal preferences and biases, by our beliefs and by decision-making shortcuts.

We will keep working to improve financial literacy. We know that in Australia financial literacy is low. Around 40% of Australians say they are not confident when it comes to managing their money.

Our education program is targeted at a cross-section of our community – from primary, secondary and trade schools to multilingual people, Indigenous people and military personnel – not to mention those who are simply approaching or going through a life financial event such as buying a home, getting divorced or retiring.

For example, ASIC's MoneySmart website – moneysmart.gov.au – has over 500 pages of consumer information, and has been visited over 5 million times in the last year. This is more than a 14% increase on the year before.

With our MoneySmart Teaching program, our target is embedding financial literacy in the National Curriculum. So far 35% of the nation's schools have engaged in the program. And, to date, 14,000 teachers have undertaken professional development in financial literacy.

On the other hand, we will continue to focus on the conduct of gatekeepers – conduct that can, and sometimes has, damaged trust and confidence. And we will pay particular attention to drivers of gatekeeper behaviour, including culture, incentives and deterrence.

We have identified particular risks around poor gatekeeper culture and conduct for responsible entities, lenders, markets, and directors, auditors and insolvency practitioners.

Digital disruption and cyber resilience

Our second challenge is digital disruption, such as marketplace lending, robo-advice, crowd-sourced equity funding, digital currencies and the potential of 'blockchain' technology.

Another of our challenges is cyber resilience, which means building systems and processes to prevent a cyber attack, or to recover from one quickly. Over recent years, there has been significant growth in the number and severity of cyber attacks around the world.

To respond to digital disruption, we will focus on:

- promoting cyber resilience and identifying potential cyber attacks in markets through real-time market monitoring, and
- ensuring compliance with licensing obligations, particularly around risk management.

We issued a report earlier this year on how cyber risks should be addressed as part of current compliance obligations: see Report 429 *Cyber resilience: Health check*. This report also highlights the US National Institute for Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity as a useful cyber resilience resource for gatekeepers.

We will continue to foster innovation through our Innovation Hub, which was launched this year. Much innovation in financial services comes from start-ups and from outside the regulated sector.

The Innovation Hub will make it quicker and easier for start-ups and fintech businesses to navigate the regulatory system we administer. The Innovation Hub also provides us with information about developments on the horizon, and how they might fit into the current regulatory framework.

We will keep abreast of market developments through our Digital Finance Advisory Committee.

We will continue to monitor emerging risks overseas and global developments on regulating fintech businesses, such as the proportional approach evolving in many jurisdictions, such as in China.

Structural change

Our third challenge is structural change, which is occurring through the growth of capital markets and is driven by:

- supply-side factors, such as the movement of savings from the banking sector to the superannuation sector, which is in part driven by compulsory superannuation but also by an ageing population, and
- demand-side factors, such as increased cost of funds or reduced availability from the banking sector as a result of new bank capital and liquidity requirements.

Our key risk in this area is financial advice where trust and confidence have been eroded enormously. Therefore, we are focusing on:

- surveillance in the funds management sector – and taking action where needed
- enabling people to check adviser credentials through our Financial Advisers Register
- responding to poor financial advice that affects retirement savings, and
- improving remediation when consumers suffer loss.

Complexity driven by financial innovation

Our fourth challenge is complexity driven by financial innovation in products, markets and technology. Much of this is driven by the digitisation of our economy. We are focusing on:

- surveillance of complex products
- drawing on behavioural economics
- improving financial literacy, and
- guiding government on law reform arising from the Financial System Inquiry.

In this regard, I see the product design and distribution obligation and the product intervention power as steps in the right direction – complex products can be appropriate if targeted to the right people.

Globalisation

Our fifth challenge is globalisation – both from a perspective of facilitating the free flow of capital across markets and because misconduct across borders can undermine market integrity and stability. In response, we will:

- influence global policy and take part in international cooperation and standard setting
- pursue bilateral and multilateral arrangements to reduce regulatory burden for cross-border activity and build capacity
- take cross-border enforcement or other regulatory action, and
- analyse intelligence on innovative businesses, services and transactions in global markets.

Conclusion

We will continue to use our ‘detect, understand and respond’ approach where there is wrongdoing or risk of wrongdoing in the market.

I'd like to conclude by emphasising the importance of industry and regulators working together to confront challenges of the future to ensure continued trust and confidence in the markets. Markets have a fundamental role in funding economic growth in the coming decades. And if you don't have trust and confidence, you don't have a market.