ASIC's INNOVATION HUB

ASIC
Australian Securities & Investments Commission

Fintech: ASIC's Approach and Regulatory Issues

A paper submitted for the Melbourne Money & Finance Conference July 2016

About:
This paper provides a background brief provides an insight into ASIC's approach to the Australian fintech sector and some of the relevant regulatory issues identified by ASIC.

Contents

A. What is Fintech?

Financial technology (or 'FinTech') is a term used to describe the use of technology in financial services. FinTech firms are often start-up businesses that use novel business models to disrupt incumbent financial systems. FinTech is resulting in new business models and products that compete with core banking, insurance, or payments functions.

Financial technologies can be grouped according to the financial market activities where they are most likely to be applied. The table below categorises some prominent FinTech innovations[1]:

Payments, Clearing & Settlement	Deposits, Lending & Capital Raising	Market provisioning	Investment management
Mobile, web and contactless payments Digital currencies Distributed ledger technologies	Marketplace lending Crowdfunding	e-aggregators Smart contracts Big Data Digital identity	Robo-advice Electronic trading
RegTech			

The Global FinTech Sector

Global FinTech investment in 2016 Q1 was US$5.7bn.[2] In all 2015 this amount was almost US$20bn, increasing from $12.2 billion in 2014 and just over $4 billion in 2013.[3]

Close to US$14bn of 2015 investment came from venture capital (VC).[4] Approximately 25% of all VC deals had corporate involvement, as incumbent businesses become increasingly active in the sphere.

A survey of digitally active consumers in AUS, CAN, HK, SG, UK and US found 15.5% had used at least two FinTech services in the past 6 months (excluding online banking and contactless cards). [5] At end 2015, 53% of US smartphone users had used mobile banking to check account balance, transfer money in personal accounts or receive correspondence from bank. Further, 28% of smartphone users had made a mobile payment to pay a bill, purchase a physical item or digital content remotely, or pay for in-store items.[6]

The Australian FinTech Sector

It is estimated that as of September 2015, the Australian FinTech market size was approximately US$1.1billion, with investment over the previous 12 months of US$300 million and approximately 10,000 people working in the industry.[7]

In a report for the UK's HM Treasury, EY rated seven countries including Australia on four attributes for a strong FinTech ecosystem. Australia rated 5th for talent, 5th for capital, 3rd for policy and 7th for demand.[8]

A survey of digitally active Australians found 13% had used at least two FinTech services in the past 6 months (excluding online banking and contactless cards).[9]

Payments, Clearing & Settlement

Mobile, web and contactless payments: Australia has the fourth highest number of non-cash payments per person in the world, behind Finland, the United States and the Netherlands. Australia also has the highest level of contactless card use in the world. The RBA's New Payments Platform is due to be operational in 2017. It is expected to encourage competition and will allow low-value transactions to occur in real-time.

Digital currencies: The use of digital currencies is increasing in Australia, although it remains at relatively low levels. In March 2014, 2% of surveyed Australians claimed to have used bitcoin in the past 12 months.[10] The government has accepted digital currencies as money and will reform GST law to address the issue of 'double taxation'.[11]

Distributed ledger technologies: In January the ASX acquired a 5% equity interest in Digital Asset Holdings LLC, to develop distributed ledger technology (DLT) solutions for the post-trade needs of the Australian market.[12] In June, the ASX increased its stake to 8.5%.[13]

Over 40 global banks, including the Commonwealth Bank, NAB and Westpac, have partnered with R3 Blockchain Consortium to design and deliver advanced DLT to global financial markets.[14] ANZ is involved in the 'Hyperledger Project' which aims to identify and address important features for a cross-industry open standard for DLT.[15]

Deposits, Lending & Capital raising

The volume of alternative finance in Australia has grown to over US$348million in 2015, increasing from US$82million in 2014 and just over US$24million in 2013.[16] The primary components in 2015 were balance sheet lending of US$120million, invoice trading of US$105million, and marketplace/P2P lending of $43million.[17]

Marketplace lending: Morgan Stanley estimates marketplace lending could account for up to $10.4 billion in consumer lending in Australia by 2020. ASIC released Information Sheet 213 to provide guidance to those operating or intending to operate in this sector.

Crowdfunding: A bill to implement a framework for crowd sourced equity fundraising was introduced to Parliament in December 2015. The bill 'lapsed at prorogation' and needs to be reintroduced into Parliament for progress to be made.

Market provisioning

e-aggregators: e-aggregators are an established part of the Australian financial services landscape, with services such as iSelect, InfoChoice and RateCity. These services have not progressed to the extent where they automatically leverage customer data through access to bank accounts and other sources to recommend products.

Smart contracts: Smart contracts have not yet been widely used in the Australian financial sector, however there is growing interest in the use of the Ethereum network to build and implement smart contracts.

Big data: A Productivity Commission Inquiry into Data Availability and Use is underway and due to report in March 2017. Issues to be considered include comprehensive credit reporting and standards for financial data aggregation, sharing and release.[18]

Digital identity: The Digital Transformation Office is currently producing a Trusted Digital Identity Framework.[19] The Framework will establish a set of principles and standards for the use of accredited government and third-party digital identities to enable individuals and businesses easier access to services.

Investment management

Robo-advice: The provision of digital advice has grown rapidly in Australia since 2014, with a number of start-up AFS licensees and existing AFS licensees developing digital advice models. 24 requests for assistance from ASIC's Innovation Hub were received involving automated advice models as of June 2016. ASIC is due to finalise its regulatory guidance for automated advice in August/September 2016.

Electronic trading: During 2015 ASIC performed a review of high frequency trading (HFT) in Australian equity markets and found that it was not adversely affecting market quality in a material way.[20] In equities trading, HFT turnover accounts for approximately 27% of total turnover and 47% of total orders, which has remained stable since ASIC’s previous review in 2012. In the futures market, HFT accounted for 21% of average daily turnover in SPI futures, and 14% in bond futures.

RegTech

RegTech is already a core element of risk and compliance frameworks for some parts of the Australian financial system, such as the monitoring of financial markets activity. The use of RegTech is rapidly evolving, and is now extending to a broader range of areas to assist businesses in meeting their regulatory obligations. ASIC's Innovation Hub is now engaging with and providing informal assistance to RegTech entities.

B. ASIC and the FinTech sector

Extract from the presentation of John Price, ASIC Commissioner at the Melbourne Fintech Meetup on 8 June 2016

ASIC is Australia's corporate, markets and financial services regulator. ASIC is responsible for regulating, not only our various exchanges and markets but also those who develop, sell and advise on investment and credit products.

We monitor the conduct of these groups, and we take action – including enforcement action – where we detect misconduct.

Our goal is to ensure that the financial services and markets we regulate operate to fund the real economy and drive economic growth. In doing so, we contribute to improved standards of living for all Australians. But we can only achieve this if investors, financial consumers and those needing capital to build their businesses have trust and confidence in our financial services and markets.

When thinking about innovation it is important to recognise that financial innovation brings both opportunities and risks. We are working to make our work in the innovation space is consistent with our relevant strategic objectives of:

- Promoting investor and financial consumer trust and confidence;
- Ensuring fair, orderly, transparent and efficient markets; and
- Ensuring efficient registration and licensing processes.

In the absence of trust and confidence, investors, consumers and participants in the financial services sector are less likely to fully participate in the sector and they are less likely to support innovative businesses. We approach the regulation of innovative business with these factors in mind.

You will know that ASIC has been involved with innovative businesses for some time now.

As a reminder, ASIC's Innovation Hub was established in April 2015 and has now been running for over a year.

The recognition of the growing importance of the fintech sector and the particular challenges fintech start-ups face were some of the motivators that drove ASIC to establish the Innovation Hub. In particular, we wanted to help innovative, fintech start-ups navigate our regulatory system.

This endeavour was also consistent the Government's deregulatory agenda. ASIC is looking to reduce red tape and improve the way we engage with fintech businesses – rather than change the key principles of what we do.

ASIC is committed to encouraging innovation, particularly where it can lead to better market and consumer outcomes. However it is important to note that the Innovation Hub will not compromise the fundamental principles of financial services regulation or the licensing process as reflected in ASIC's strategic objectives. Again, this is to ensure we promote confidence in our financial system including for new fintech businesses.

C. ASIC's Innovation Hub

ASIC established an Innovation Hub in April 2015 to assist FinTech start-ups navigate our regulatory system. The Innovation Hub has five elements:

1. Engage with FinTech initiatives, including physical hubs and co-working spaces for start-ups. Senior staff make regularly presentations at these spaces.
2. Provide informal assistance to new businesses to help them consider important regulatory issues. Eligible businesses can request assistance from ASIC through our Innovation Hub website. We expect this to reduce the time and cost of applying for licences or relief.
3. We have established 'Innovation Hub' webpages for innovative businesses to access information and services targeted at them. This information is regularly updated.
4. A senior internal taskforce to coordinate our work on new business models. The taskforce draws together dispersed knowledge and skills from across ASIC.
5. The Digital Finance Advisory Committee (DFAC) advises ASIC on its efforts in the sector. DFAC members are drawn from the FinTech community, academia and other consumer backgrounds. Other financial regulators are observers on DFAC.

Since its inception, the Innovation Hub has worked on 141 matters relating to 108 entities. We have provided informal assistance to 75 entities, and worked on licence applications from 39 businesses. New licenses have been granted to 16 businesses and variations approved for 6 others.

Most entities seeking assistance have proposed roboadvice, marketplace lending, crowdfunding, payments or other credit business models. Some businesses are looking at blockchain and RegTech.

ASIC staff have presented on multiple occasions at FinTech 'meet-ups' and information sharing events to discuss the Innovation Hub and our approach to new business models. Further engagement with industry will continue in future.

Regularly meetings are held with various international regulators to discuss innovation developments and policy proposals. We have also established a relationship with the World Economic Forum and its team working on blockchain and digital identity.

We recently entered into Cooperation Agreements with the FCA in March and MAS in June. These agreements establish processes for making referrals of FinTech start-ups to one another. ASIC has since made its first referral to the FCA.

ASIC has also set up internal taskforces into automated financial advice (roboadvice), digital marketplace lending, equity crowdfunding and blockchain. We are currently developing guidance for automated financial advice. An information sheet on marketplace lending has been issued. A consultation paper was released in June that contained proposed licensing exemptions to facilitate innovation, including a proposal for a Regulatory Sandbox.

D. Marketplace lending

Marketplace lending arrangements commonly involve the use of an online platform, such as a website, on which loan requests are made. The loan requests may then be matched against offers to invest. Investors either select the loans they wish to invest in or they are matched with loans that meet specified criteria.

Below is an extract of ASIC Information Sheet 213, which provides guidance to assist those operating in this space.

Extract from Information Sheet 213, released on 21 March 2016, Link - http://goo.gl/F6OZkF

Information Sheet 213 gives guidance to assist providers of marketplace lending products and others providing financial services in connection with these products. It covers:

- What marketplace lending is;
- Key risks involved in providing marketplace lending products;
- Key obligations that may apply to marketplace lending business models;
- Advertising of marketplace lending products; and
- Good practice examples.

We have also given guidance to assist investors and borrowers which you can find on our MoneySmart website.

We are aware that different business models may be used to provide marketplace lending products, including:

- Managed investment schemes;
- The issue of derivatives;
- The operation of a financial market; or
- The issuance of securities.

The focus of this information sheet is on the obligations that are relevant to products structured as a managed investment scheme, which we have found to be a commonly used business model for marketplace lending in Australia at this time.

The guidance in this information sheet may also be relevant to marketplace lending providers that use other business models.

We welcome further discussion with marketplace lending providers about their proposed business model or the guidance provided in this information sheet. If your business is a start-up you may also request further guidance through ASIC's Innovation Hub.

Our guidance refers to the legislative and policy settings that currently apply. As marketplace lending develops in Australia the legislative and policy settings in this area may be subject to change. We will review the guidance as appropriate in response to any future changes in the law, policy settings or business structures.

E. Automated financial advice

Automated financial advice (also known as ‘robo-advice’ or 'digital advice') is the provision of financial product advice using algorithms and technology and without the direct involvement of a human adviser.

ASIC sees automated financial advice as having the potential to offer Australian consumers access to good quality, low-cost, financial advice.'

As part of our commitment to encouraging innovation that may benefit consumers, ASIC issued draft guidance for consultation in March 2016 on the provision of digital product advice to retail clients. This guidance followed direct engagement with digital advice providers about their business models. During that engagement it became clear that digital advice providers would benefit from additional ASIC guidance specific to digital advice.

The draft regulatory guide built upon existing ASIC guidance and did not introduce new regulatory concepts. However, there were some issues unique to digital advice providers that were discussed, including:

Organisational competence

In the draft regulatory guide, we discuss how digital advice providers can meet the minimum training and competence standards for advisers. Natural persons who provide financial product advice to retail clients are required to meet the minimum training and competence standards for advisers. These are currently set out in Regulatory Guide 146 Licensing: Training of financial product advisers.

In a digital advice context, the financial product advice is generated by algorithms, so there is no natural person directly involved in providing the advice. For digital advice licensees to meet the organisational competence obligation in RG 105, we have proposed in CP 254 that a licensee has at least one responsible manager who meets the training and competence standards.

Monitoring and testing of algorithms

Our draft regulatory guide also discusses the importance of digital advice providers having adequate processes in place to monitor and test the algorithms underpinning the advice being provided. We expect file reviewers to assess all the information and use their judgement in forming a view on the quality of advice provided. This may involve file reviewers considering any additional information, as appropriate, to form a view on the quality of advice provided. Frequent reviews of digital advice should be conducted initially, and with heightened scrutiny when any change to an algorithm is made.

In response to CP 254, ASIC received 38 submissions. All submissions were supportive of ASIC releasing guidance on digital advice. ASIC is in the process of reviewing the submissions, liaising with a number of industry groups and working on the final guidance.

The final regulatory guide is due to be published in August/September 2016.

F. Regulatory Sandbox

ASIC released in June 2016 Consultation Paper 260 *Further measures to facilitate innovation in financial services*, which included a regulatory sandbox licensing exemption. Below are relevant sections of the ASIC Media Release that accompanied the release of CP260.

Extract from 16-185MR, released on 8 June 2016. Link - http://goo.gl/CebLzE

ASIC today released a consultation paper on proposed further measures to facilitate innovation in financial services, including a regulatory sandbox licensing exemption.

ASIC Commissioner John Price said, 'ASIC is committed to facilitating innovation in financial services, especially where it has the potential to improve consumer outcomes. We are looking forward to engaging with industry on the proposed measures.'

Building on ASIC's experience through its Innovation Hub, ASIC has identified some barriers faced by new financial technology (fintech) businesses seeking to enter the financial services market. These barriers include speed to market and meeting the organisational competence requirements of a licensee.

In seeking to address these specific barriers to innovation in financial services, ASIC is proposing to:

- Provide examples on how ASIC exercises its discretion under existing policy to assess the organisational competence of a licensee applicant;
- Modify ASIC's policy on organisational competence of a licensee to allow some limited-in-scale, heavily automated businesses to rely, in part, on compliance sign-off from a professional third party to meet their competence requirements; and
- Implement a limited industry-wide licensing exemption to allow start-ups to test certain financial services for six months (the 'regulatory sandbox' exemption).

ASIC's proposals build on the substantial flexibility already available to innovative businesses in the form of:

- Modular financial services and credit licensing frameworks;
- The option for businesses to operate as a representative of an existing licensee;
- ASIC's discretion on organisational competency when assessing submissions made by licensee applicants under 'Option 5' of Regulatory Guide 105 *Licensing: Organisational Competence'* (RG 105)*;* and
- ASIC's policy framework to consider granting industry-wide or entity-specific waivers and issue no-action letters.

More information on the current regulatory framework, and ASIC’s proposals, is available in the following infographics.

ASIC encourages members of the financial services and fintech industry and consumers to make a submission on the consultation paper. The closing date for submissions is Friday 22 July 2016.

The two graphics that follow detail the existing and proposed measures to facilitate innovative fintech start-ups (available at http://goo.gl/2Pe2rm).

EXISTING

MODULAR AUSTRALIAN FINANCIAL SERVICES LICENSING

Seek Australian Financial Services (AFS) licence by reference to service, client and product

Kind of service (egs:)
- Finance advice
- Dealing
- Make a market
- Issue a product

+

Kind of client
- Wholesale client
- Retail client

+

Kind of product
- Product class(es) (eg: securities)
- Specific product (eg: named managed investment scheme)

EXAMPLE: X No. of fintech startups licensed since March 2015 who deal with wholesale clients only

EXISTING

MODULAR AUSTRALIAN CONSUMER CREDIT LICENSING

Seek a Australian Credit (AC) licence by reference to kind of service

Kind of service
- Provide consumer credit
- Advise/arrange consumer credit

+

Kind of client
- Retail consumers

EXISTING

OPERATE AS A REPRESENTATIVE OF A LICENSEE

- Provide financial services as an authorised representative of an AFS licensee (Except as a Product issuer)
- Provide consumer credit services as a representative of a AC licensee
- ASIC is neutral in its approach to operators as licensees or representatives

EXAMPLE: ASIC knows of numerous fintech startups that commenced operations as an authorised representative

EXISTING

ASIC APPLIES DISCRETION TO ORGANISATIONAL COMPETENCY OF LICENCE APPLICATNTS

- ASIC allows applicants to demonstrate why they have management with necessary skills and experience

EXAMPLE: X No. of fintech startups licensed since March 2015 where ASIC has applied its general discretion

EXISTING

ASIC'S INFORMAL ASSISTANCE TO FINTECH STARTUPS

- Since the start of ASIC's Innovation Hub in March 2015, ASIC has provided informal assistance to 53 fintech startups
- During this time we have received 24 licence applications from innovative businesses (including 5 who received informal assistance). 10 new licences have been grated.

EXISTING

ASIC'S FRAMEWORK TO GRANT WAIVERS OR NO ACTION LETTERS

- ASIC has policy to consider applications for waivers from the law or no action letters
- ASIC can and has issued class or individual waivers relevant to fintech startups

EXAMPLES: ASIC has issued a class waiver(s)…:
- *from licensing to facilitate use of generic calculators and risk tools*
- *to enable electronic disclosure as a default*
- *from licensing to allow low value non-cash payment facilities*

ASIC has issued individual waivers from aspects of the managed investment schemes for marketplace lenders with retail investors.

PROPOSAL B1

ASIC PROPOSES ADDITIONAL GUIDANCE ON ORGANISATIONAL COMPETENCY

We propose to provide additional clarity on how we access submissions about a responsible manager's knowledge and skills under Option 5 of RG 105 (i.e. whether licence applicants meet their organisational competence requirements).

PROPOSALS B2 – B4

ASIC PROPOSES ADDITIONAL FLEXIBILITY FOR SMALL, HEAVILY AUTOMATED BUSINESSES

We propose to allow small, heavily automated businesses to appoint third parties who provide sign-off as responsible managers. Elements of this proposal include:

- sign-off must be lodged with ASIC at regular intervals
- only available to licensees who provide advice or dealing services to limited clients
- at least one responsible manager who makes significant day-to-day decisions must be nominated

PROPOSALS C1 – C9

ASIC CONSULTS ON ADDITIONAL CLASS WAIVER FOR LIMITED SERVICE TESTING ('REGULATORY SANDBOX EXEMPTION')

We propose an industry-wide licensing waiver for limited financial services provided to a small number of retail clients. Elements of this proposed waiver include:

- the waiver would apply to advice and dealing services only for a period of 6 months
- the testing business must have a recognised sponsor ('sandbox sponsor')
- the service is limited up to 100 retail clients
- the waiver would allow up to $10,000 investment per retail client in listed securities, deposits and simple managed investment schemes
- the service may have an unlimited number of wholesale clients, subject to a total investment cap of $5 million
- the testing business must comply with a modified set of conduct and disclosure obligations
- the testing business must be a member of an external dispute resolution scheme
- the testing business must have adequate compensation arrangements
- the testing business must not be an existing licensee

Businesses will still be able to request individual waivers for the testing of other services

G. Crowd-sourced equity funding

The crowdfunding legislation was awaiting debate in the Senate before the recent Federal election. To progress, a Bill would need to be reintroduced in the next Parliament. This is a matter for the Government.

Timeline of progress to date:

Date	
August 2012	ASIC releases guidance on the circumstances in which fundraising through crowd funding may be regulated under the Corporations Act 2001 (available through ASIC Media Release 12-196MR).
December 2014	Following the CAMAC review in 2014 and FSI report recommending that regulatory impediments to crowdfunding be reduced, Treasury release a discussion paper on reform options to facilitate crowd source funding in Australia.
May 2015	Government announces it will be proceeding with legislation to introduce the crowd source funding frameworks and as part of the 2015/16 budget allocated $7.8m to ASIC towards preparation for its implementation and the ongoing regulation of intermediaries and issuers.
August 2015	Treasury releases consultation paper on extending the crowd source funding framework to cover proprietary companies.
3 December 2015	Crowd source funding bill introduced into the Lower House and read a first time, immediately referred for review to Senate Committee.
22 December 2015	Exposure draft of crowd source funding regulations released for consultation.
22 February 2016	Crowd source funding bill introduced into the Senate and read a first time.
1 March 2016	Senate Committee releases its report recommending the Senate pass the bill and a review of the framework take place 2 years after enactment.
17 April 2016	Crowd source funding bill lapsed at prorogation.
Possible future	The draft legislation before Parliament before the election proposed a 6 months period after assent before the commencement of a CSF framework.

In March, the Government said it would consider:

- Increasing the assets and turnover threshold used to determine eligibility for equity crowdfunding to $25 million; and
- Reducing the cooling off period for investors into crowd-sourced equity funded projects to 48 hours.

Description of the proposed framework

The Corporations Amendment (Crowd-sourced Funding) Bill 2015 and associated proposed regulations to amend the Corporations Act (also minor amendment to the ASIC Act) provided for a proposed framework for reducing regulatory barriers to the use of crowd-sourced funding in Australia as a source of funding for businesses and start-ups in particular. The Government at the time explained that this will encourage Australians to innovate and invest[21].

The proposed framework would have allowed a company to make offers of securities (at this stage, only fully-paid ordinary shares) through an intermediary to a large number of individuals (i.e. the 'crowd'). It therefore involves 3 key players:

- *Issuer* – the company (eligibility criteria apply e.g. unlisted public company that meets an assets and turnover test) that wishes to have its securities made available to the 'crowd';
- *Intermediary* – an AFS licensed public company that provides the 'crowd-funding service' (which will be a type of financial service) by publishing on its platform (website or other electronic facility) an offer document prepared by the issuer and taking applications for the issue, by the issuer, of securities pursuant to the offer; and
- *Investor* – a member of the 'crowd' who makes an application through the intermediary's platform for the issue of securities in the issuer.

Some of the existing regulatory barriers to be addressed by the proposed framework were:

- For proprietary companies, a limit of 50 non-employee shareholders and prohibitions on making public offers of securities mean such companies are not able to access the large number of small-scale investors that would typically be targeted under an equity crowd source funding campaign; and
- Public companies are not subject to these restrictions, but must comply with substantially higher corporate governance and reporting obligations that may be too expensive to be an option for small business. Public companies making equity or debt offers must generally also use a disclosure document, which can be costly and time consuming to prepare.

The proposed regulatory framework intended to balance reducing the current barriers to crowd source funding whilst ensuring that investors have an adequate level of protection from risks such as fraud, and sufficient information to allow them to make informed decisions.

H. International Co-operation Agreements

ASIC has entered into Cooperation Agreements with the Financial Conduct Authority (FCA) in March, and the Monetary Authority of Singapore (MAS) in June. These agreements are similar in nature and establish processes for making referrals of FinTech start-ups to one another. ASIC has since made its first referral to the FCA and is in the process of making its first referral to MAS.

Copies of the agreements can be found in the following ASIC media releases:

FCA: **16-088MR** British and Australian financial regulators sign agreement to support innovative businesses – *http://goo.gl/E4zeTW*

MAS: **16-194MR** Singaporean and Australian regulators sign agreement to support innovative businesses – *http://goo.gl/6WEhyU*

Extract from Media Release 16-088MR: British and Australian financial regulators sign agreement to support innovative businesses - Wednesday 23 March 2016

Under a new world-first agreement, innovative fintech companies in Australia and the United Kingdom will have more support from financial regulators as they attempt to enter the others' market.

As a result of the agreement signed today, the UK's Financial Conduct Authority (FCA) and the Australian Securities and Investments Commission (ASIC) will refer to one another those innovative businesses seeking to enter the others' market. The regulators will provide support to innovative businesses before, during and after authorisation to help reduce regulatory uncertainty and time to market.

The agreement follows the creation of Innovation Hubs at the FCA and ASIC in October 2014 and April 2015, respectively. The Hubs were set up to help businesses with innovative ideas navigate financial regulation, support them through the authorisation process and engage with the regulator. To date the FCA's Innovation Hub has supported over 200 businesses and the authorisation of 18 businesses. Likewise, ASIC has dealt with over 75 innovative start-ups including the granting of 10 licences.

Christopher Woolard, Director of Strategy and Competition at the FCA, said:

'Innovation in financial services isn't limited by national borders and so it's important that we support overseas businesses that have new ideas that could benefit British consumers. We also know that many British firms wish to use the UK as a springboard to launch their businesses or products internationally, making them potentially more sustainable challengers. That is why this agreement – the first of many, we hope – is important. With ASIC, we will reduce the barriers for authorised firms looking to grow to scale overseas and to assist non-UK innovators interested in entering the market we oversee.'

Greg Medcraft, Chairman, Australian Securities and Investments Commission, said:

'ASIC is committed to encouraging innovation that has the potential to benefit financial consumers and investors. Since ASIC launched its Innovation Hub last year we have seen a surge in requests by fintech startups seeking assistance about how to navigate the regulatory requirements. In particular we have dealt with robo or digital advice, crowd sourced equity funding, payments, marketplace lending and blockchain business models. It is very exciting to observe and clearly some business ideas will want to scale up internationally. We believe this agreement with the FCA will help break down barriers to entry both here and in the UK.'

To qualify for the support offered by the agreement, innovator businesses will need to meet the eligibility criteria of their home regulator's Innovation Hub. Once referred by the regulator, and ahead of applying for authorisation to operate in the new market, the business will have access to a dedicated team or contact person who will help them to understand the regulatory framework in the market they wish to join, and how it applies to them. These businesses will be given help during the authorisation processes with access to expert staff and, where appropriate, the implementation of a specialised authorisation process. Following authorisation, the businesses will have a dedicated contact to turn to for a year.

ASIC and the FCA have also committed to share information on emerging market trends and their impact on regulation.

The fintech industries in the UK and Australia are estimated to have revenues of around $12.5bn (£6.6bn) and $1.3bn (£0.7bn) a year, with both growing rapidly.

I. Appendix

[1] Adapted from Financial Stability Board, *FinTech: Describing the Landscape and a Framework for Analysis*, 16 March 2016

[2] KPMG International and CB Insights, *The Pulse of FinTech: Q1 2016*, 25 May 2016, https://home.kpmg.com/xx/en/home/insights/2016/03/the-pulse-of-fintech-q1-2016.html

[3] KPMG International and CB Insights, *The Pulse of FinTech: 2015 in Review*, 9 March 2016, https://home.kpmg.com/xx/en/home/insights/2016/03/the-pulse-of-fintech-q1-2016.html

[4] KPMG International and CB Insights, *The Pulse of FinTech: 2015 in Review*, 9 March 2016, https://home.kpmg.com/xx/en/home/insights/2016/03/the-pulse-of-fintech-q1-2016.html

[5] EY, *EY FinTech Adoption Index,* http://www.ey.com/GL/en/Industries/Financial-Services/ey-fintech-adoption-index

[6] Board of Governors of the Federal Reserve System, Consumers and Mobile Financial Services 2016, March 2016, http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201603.pdf

[7] EY, *UK FinTech: On the cutting edge*, 24 February 2016, https://www.gov.uk/government/publications/uk-fintech-on-the-cutting-edge

[8] EY, *UK FinTech: On the cutting edge*, 24 February 2016, https://www.gov.uk/government/publications/uk-fintech-on-the-cutting-edge

[9] EY, *EY FinTech Adoption Index,* http://www.ey.com/GL/en/Industries/Financial-Services/ey-fintech-adoption-index

[10] HP-RFi, *Australian Payments Research* (Edition 6), May 2014.

[11] Australian Government, *Backing Australian FinTech*, March 2016, http://fintech.treasury.gov.au/

[12] ASX, *Media Release*, 22 January 2016

[13] ASX, *Media Release*, 22 June 2016

[14] Morgan Stanley Research, Global Insight: Blockchain in Banking: Disruptive Threat or Tool?, 20 April 2016, http://news-cdn.efinancialcareers.com/wp-content/uploads/Morgan-Stanley-blockchain-report.pdf?_ga=1.58589672.334809460.1461712176

[15] Morgan Stanley Research, Global Insight: Blockchain in Banking: Disruptive Threat or Tool?, 20 April 2016, http://news-cdn.efinancialcareers.com/wp-content/uploads/Morgan-Stanley-blockchain-report.pdf?_ga=1.58589672.334809460.1461712176

[16] KPMG et al., *Harnessing Potential: The Asia Pacific Alternative Finance Benchmarking Report*, March 2016, https://home.kpmg.com/au/en/home/insights/2016/03/harnessing-potential-asia-pacific-alternative-finance-benchmarking-report.html

[17] KPMG et al., *Harnessing Potential: The Asia Pacific Alternative Finance Benchmarking Report*, March 2016, https://home.kpmg.com/au/en/home/insights/2016/03/harnessing-potential-asia-pacific-alternative-finance-benchmarking-report.html

[18] Australian Government, *Backing Australian FinTech*, March 2016, http://fintech.treasury.gov.au/

[19] Digital Transformation Office, *Trusted Digital Identity Framework,* https://www.dto.gov.au/budget/trusted-digital-identity-framework/

[20] ASIC, Report 452*Review of high frequency trading and dark liquidity (REP 452),* 26 October 2015, http://www.asic.gov.au/regulatory-resources/find-a-document/reports/rep-452-review-of-high-frequency-trading-and-dark-liquidity/.

[21] Treasury Media release: http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2015/Crowd-sourced-Equity-Funding