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Australian Securities & Investments Commission

Financing the global economy: Opening remarks

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CHECK AGAINST DELIVERY

Introduction

I would like to welcome each of you to this historic and truly wonderful venue and look forward to what I am sure will be a stimulating three days.

I want, in particular, to thank Tatsiana and Stephen for pulling together a great agenda.

I am confident that the agenda – and each of the sessions particularly today and tomorrow – will challenge us to think constructively and creatively about one of the key issues we face globally – financing economic growth.

I thought I might use these introductory comments as an opportunity to share some of my thinking – thinking which will guide my contribution over the next few days.

You will not be surprised to hear my main focus will be on the steps that should be taken to ensure market-based finance – that is, finance through our capital markets – develops into a sustainable source of finance for the real economy.

I want, in particular, to touch on three particular topics:

- the growing importance of market-based finance
- what has contributed to the recent emergence of market-based finance, and
- what we need to do to ensure capital markets become a sustainable source of finance.

The importance of market-based finance

The importance of market-based finance lies in the role it plays in supporting the real economy and economic growth.

We will no doubt hear over the next few days how traditional forms of finance – from banks and from governments – are increasingly unable to meet the financing needs of the real economy.

This issue is particularly acute in funding the ‘engine rooms’ of growth – both SMEs and infrastructure. This is an issue not only in developed economies – such as Europe and Australia– but particularly in growth and emerging economies.

The infrastructure funding gap between what is available and what is needed is immense. The World Economic Forum estimates this gap to be US$ 1 trillion annually. Indeed, they estimate that current annual demand for infrastructure globally is US$ 4 trillion – much of this coming from growth and emerging markets.

But I think that the benefits in bridging that gap are equally immense. Capital markets, through market-based finance, can meet that funding gap and deliver these economic benefits.

Growth of market-based financing

Market-based financing has emerged as this alternative source of finance for, I think, three main reasons – reasons on which we will reflect over the next few days.

The first – and probably the best documented and most hotly debated – is the way the banking sector is now regulated in response to the global financial crisis. Many argue that this has created incentives for activity to migrate into what is perceived as the more lightly regulated markets space.

The second reason is the technological advances we have seen in recent years in the finance sector. Fintech has been driving significant cost and efficiency improvements due to the lack of competing legacy systems. These improvements have reduced barriers to entry and spawned new competitors from outside the traditional banking sector and created alternatives to the traditional banking sector. Peer-to-peer lending and crowd-sourced funding are only two of many examples. The opportunities which could be underpinned by blockchain are another.

The third reason is culture. It is fair to say, I think, that poor culture has contributed to the poor conduct we have seen in many jurisdictions during and since the global financial crisis.

Conduct and culture issues have undermined trust and confidence in the traditional banking sector. The greatest asset that banks have is the trust of their customers and whether a bank has a culture that its customers can believe in.

This decline in trust and confidence in traditional sources of funding has, I think, encouraged the growth of other sources of finance – and market-based finance in particular. The relentless nature of the 24-hour news cycle and social media commentary has magnified this, resulting in greater consumer empowerment and putting businesses on notice that they need to carefully monitor the gap between their social and legal licences.

Ensuring market-based finance is sustainable

The challenge we face is ensuring market-based finance becomes a sustainable alternative to traditional sources of finance and helps meet the funding gap I outlined earlier. The key to doing this is ensuring that trust and confidence in capital markets and these alternatives is sustained. This trust needs to be in all parts of the markets – among those seeking to raise capital through markets and those who want to use capital markets to invest their savings.

What does having trust and confidence mean for investors and issuers?

For investors, it means being confident that they will get relevant and timely information they can trust about investments so that they can accurately price those investments and understand the risks. Investors may also need to have trust and confidence that the markets they invest in have the degree of sustainable liquidity that they expect. And by liquidity, I mean the ability to execute sizeable transactions immediately with limited price impact.

For issuers, it also means having trust and confidence in the sustainable liquidity of markets they issue in and the legal infrastructure underpinning them.

Building this trust and confidence is a joint exercise between the official sector and industry. It is not something we in the official sector can – or should – do on our own.

We in the official sector – regulators, supervisors and policy makers – have a role to play in ensuring the right environment is in place. We need to make sure we have the right regulatory framework and policy settings to support the trust and confidence we want to see.

But it is up to industry to use the framework in a way that delivers trust and confidence for both investors and issuers.

From an official sector perspective, I think we need to focus on three areas in supporting sustainable market-based finance – two of which have contributed to the growth we have seen to date.

The first is ensuring we harness the opportunities fintech offers while mitigating the risks it poses. As regulators and policy makers we want to see new developments and innovations that bring value to investors and financial consumers. We want to create the right environment for industry to innovate and build capital markets as a viable alternative source of finance. But we also must be mindful of the risks that new fintech developments can pose for investors and for the fair, orderly and transparent operation of these markets.

The second area is around culture and working to ensure that poor culture and conduct does not threaten trust and confidence in capital markets and market-based finance, as it has done in the banking sector. As I have said, culture is at the heart of how an organisation and its staff think and behave and it is an issue that companies themselves must address. However, it is something we in the official sector will need to monitor and – where we see signs of poor culture – raise with boards and management.

The third area we need to focus on is official sector cooperation across borders. Capital markets are global in nature and market-based finance will develop along global lines. We need to work with our counterparts in other jurisdictions to ensure that our approaches to regulation are consistent and coordinated and that we cooperate in key areas, particularly supervision and enforcement. If we don't, we risk impeding – rather than supporting – the growth of sustainable market-based finance.

Conclusion

Thank you very much, and I look forward to further exploring and discussing these ideas over the next few days.