ASIC

Australian Securities & Investments Commission

Positioning ASIC as a regulator for the future

A speech by Greg Medcraft, Chairman,
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CHECK AGAINST DELIVERY

Introduction

Thank you for inviting me to speak at this AmCham lunch today.

Today I would like to talk about how ASIC is positioning itself as a regulator for the future.

But before I do, it would be remiss of me not to make some general comments about recent developments in the US and in Europe and their implications for us.

I think it is fair to say we are about to embark on a period of unprecedented political and economic uncertainty, driven by the change in administration in the US, the Brexit process in the UK and Europe and elections in key continental European jurisdictions.

The idea that politics should be about the local – and not the regional or the global – has resonated – and is resonating – through each of these changes and developments – particularly with those who feel they've been left behind through a period of significant economic and social change.

Globalisation and the value of trade, in particular, has been demonised – with self-evident effect.

We in Australia will watch with considerable interest to see how the rhetoric of the campaign trail will play out in the new policy settings developed in the US, in particular, and in Europe.

As a small open economy, we have – on balance – benefitted significantly from globalisation.

In the capital markets space, the need to reduce the barriers to cross-border activity has long been a key part of our policy settings.

This has been driven by a belief that issuers benefit from opportunities to raise capital in other markets and investors and financial consumers have and will benefit from the broader range of investment opportunities offered by investing outside Australia.

We don't want to see these benefits lost.

So, the challenge for us in Australia will be to ensure the message about the benefits and value of globalisation to economies like ours is understood – and taken into account – as policy settings in our key partners are recalibrated.

And through this period of change and recalibration it will be critical for policy makers and regulators to keep channels of communication and co-operation open.

We have had great working relationships and open and constructive dialogue with our counterparts in the US and Europe. We will continue to use these channels to ensure our voice and our interests are heard.

Industry groups such as this will also be an important avenue of communication and advocacy of our interests.

So turning to how ASIC is positioning itself as a regulator for the future, I would like to touch on:

- ASIC's vision
- how ASIC is using data analytics currently and in the future to help achieve our vision, and
- how our transition to industry funding will help ensure we are equipped to meet our future challenges.

ASIC's vision

ASIC's vision is to allow markets to fund the economy, and in turn, economic growth. In doing so, contributing to the financial well-being of all Australians. We do this by:

- promoting investor and consumer trust and confidence;
- ensuring fair and efficient markets; and
- providing efficient registration services.

How we achieve our vision in the future will be influenced by the key challenges we face. These challenges are:

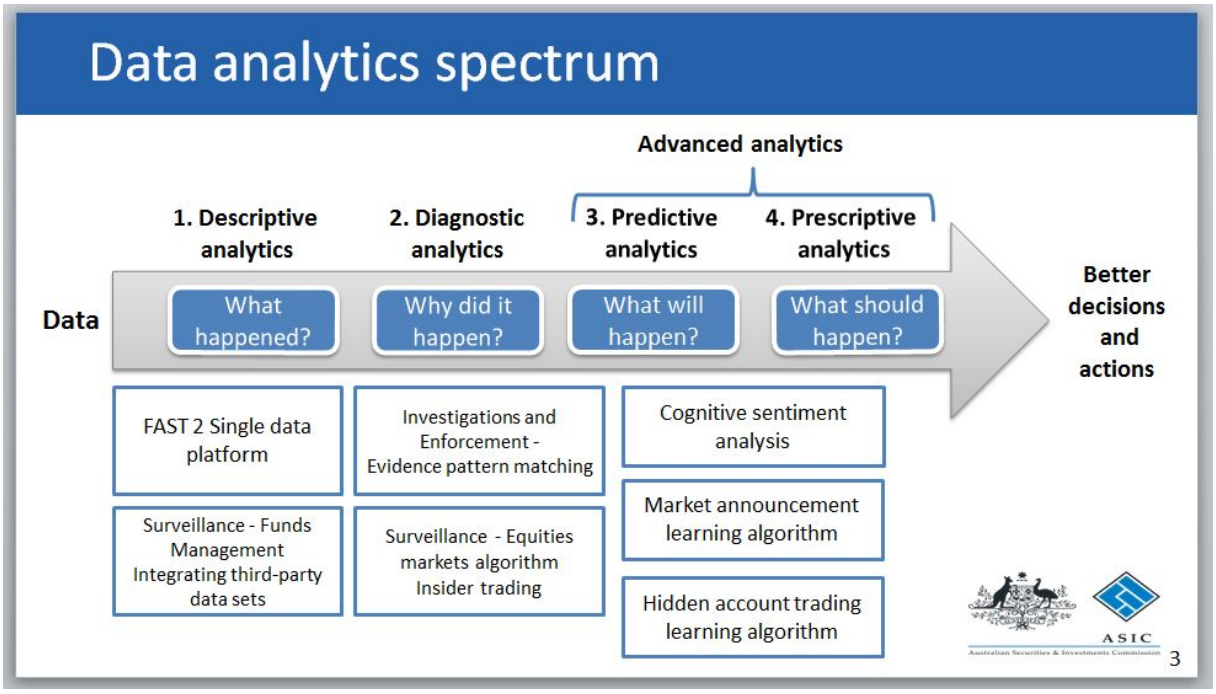
1. Conduct risk and the balance between a free market-based system and investor and financial consumer trust and confidence;
2. Digital disruption and cyber resilience in our financial services and markets;
3. Structural change in our financial system through market-based financing which is driven by the growth in superannuation;
4. Complexity in financial markets and products driven by innovation; and
5. Globalisation of financial markets, products and services.

We have set out our strategy for dealing with these challenges over the next 4 years, in our Corporate Plan which we published in August this year.

You can find it on our website (www.asic.gov.au/corporate-plan).

How ASIC is using data analytics

Now, I would like to turn to how ASIC is using – and is planning to use - data analytics to be a more pre-emptive and proactive regulator.



There is a spectrum of data analytics capabilities from descriptive and diagnostic – now through to advanced analytics including predictive and prescriptive analytics.

To this end, I'd like to touch on some examples of how we are using data analytics in our work.

Descriptive Analytics

First, descriptive analytics.

Descriptive analytics helps describe or summarise raw data about things that have already occurred – providing a baseline picture of the lie of the land. Descriptive analytics is useful because it allows us to learn from past behaviours, and understand how they might influence future outcomes.

Regulatory Data Transformation – FAST 2

We are improving how we work with descriptive analytics through our FAST 2 program of work, which will transform our regulatory business by helping us to more effectively capture, share and use our data.

Over the next three years, we are building an integrated platform – using MS Dynamic CRM which includes a single repository of internal and external regulatory data sets – with the ability to search across this data easily, for a single picture of a person or entity, to allow us to better connect the dots.

Surveillance – Funds Management

We are also integrating enhanced third party data sets from the ATO, Morningstar and Bloomberg.

Diagnostic analytics

Second, diagnostic analytics.

Diagnostic analytics examines data or content to answer the question 'Why did what we have seen happen?' It takes us a few steps beyond describing what we have seen to explain why it is there or has happened.

Data analytics in investigations and enforcement

We are focused on further strengthening our capabilities in using diagnostic data analytics in our investigations – so helping us to understand and explain events and inform the regulatory actions we might take.

For instance, we are implementing new third party software for use in investigation and enforcement matters, which allows pattern matching across our extensive evidence database, using algorithms.

It allows us, for example, to map relationships of persons and entities and create chronologies using metadata, well beyond traditional word or enhanced word search capabilities.

Surveillance of equities markets

Also in markets, we are focused on tools that help us to monitor and analyse price and volume variations more efficiently to identify insider trading and market manipulation.

Since taking over market supervision from the ASX in 2009, we introduced our surveillance system named Market Analysis and Intelligence – or MAI – which was developed by First Derivatives, an entity specialised in developing systems for HFT.

It enables us to more quickly and more efficiently identify insider trading and market manipulation.

MAI uses purpose-built flexible algorithms and sophisticated data analytics to identify suspicious trading.

In leveraging the individual trading data we have access to, and our data analysis capabilities, we recently developed an innovative new market cleanliness measure to indicate anomalous trading ahead of price-sensitive announcements.

Our measure looks at information leakage ahead of material, price-sensitive announcements by analysing price movements or shifts in trading behaviour before these announcements.

Predictive analytics

Predictive analytics is about understanding the future and can provide insight into the probabilities of future outcomes. It can generate red flags that help identify risk areas to organise our resources – and help us to become more pre-emptive and proactive.

We have a number of trials underway exploring the power of predictive data analytics. Here are a few examples.

Cognitive sentiment analysis

We are piloting the use of cognitive sentiment analysis.

Firstly, using social media analytics to monitor sectoral hotspots in financial services.

Second, we are exploring how we can use natural language, voice and text algorithms to better detect and respond to misconduct.

Market announcement learning

We are experimenting with the use of Natural Language Processing (or NLP) supervised learning algorithm to 'read' – understand and classify – market announcements so that they can then be further analysed.

Hidden account trading

We are also using a machine learning algorithm, known as Support Vector Machine (SVM), to read market data and detect previously unidentified accounts employed by fund managers to disguise their trading manner.

Prescriptive data analytics

Finally, prescriptive analytics is a relatively new field of analytics.

At its best, prescriptive analytics will predict not only what will happen, but also *why* it will happen, and will provide recommendations to take advantage of the predictions. This type of analytics can help to identify how to respond to the red flags we see.

The evolution of this area of data analytics will no doubt provide us with new opportunities and capabilities in the future and will be an important development down the road.

Chief Data Office

I would like to mention that ASIC has now established a Chief Data Office.

The Office will ensure appropriate governance of ASIC's data assets and the data we request and use from third parties.

The Chief Data Office will support ASIC to be a data-driven, forward-looking regulator and will help continue to build our capabilities in data analytics for our surveillance and enforcement activities.

Industry funding

Turning now to industry funding...

On 20 April 2016, the Government announced that it would introduce an industry funding model for ASIC, commencing in the second half of 2017.

As part of that announcement the Government made a commitment to consult extensively with industry to refine and settle the model prior to implementation.

On 7 November 2016, the Government released a revised model for consultation, which has been developed with the benefit of the extensive feedback received from stakeholder consultations during 2015.

ASIC has long believed that those who generate the need for ASIC's regulation should pay for it, rather than the Australian public.

We also think that an industry funding model is about establishing price signals to drive economic efficiencies in the way resources are allocated within ASIC.

Industry funding will also improve ASIC's transparency and accountability. That means business will better understand the job we do by having greater visibility of the cost of doing that job.

We have worked closely with Treasury in developing the refined model for further consultation.

We are continuing to work with Treasury and with those we regulate to see industry funding work well.

Industry funding should make our funding base more stable for the future, so that we can continue to focus on meeting our future challenges.

Conclusion

Markets can only properly fund the economy if investors have trust and confidence in them.

And as I've outlined, ASIC plays a key role in continuing to build that trust and confidence - detecting, understanding and responding to misconduct.