



ASIC

Australian Securities & Investments Commission

REPORT 523

ASIC's Innovation Hub and our approach to regulatory technology

May 2017

About this report

This report provides an update on the work of ASIC's Innovation Hub and outlines our approach to financial technology, regulatory technology and related areas.

We are seeking feedback from innovative financial businesses, technology businesses, financial services providers, academics, professional firms, consumer representatives and other interested parties on both our current and proposed future approach to regulatory technology.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

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A Background

Innovation Hub

- 1 In March 2015, ASIC launched an Innovation Hub to help financial technology (fintech) businesses navigate the regulatory system without compromising investor and financial consumer trust and confidence.
- 2 The Innovation Hub provides the opportunity for innovative businesses to understand how regulation might affect them. It is also helping ASIC to monitor and understand developments related to innovation and how ASIC can respond to them.
- 3 Section B of this report provides a summary of the Innovation Hub's work to date and ASIC's approach to developments in the fintech sector.

Regulatory technology

- 4 As part of the Innovation Hub initiative, ASIC is focusing on engaging with industry on the developments and opportunities in regulatory technology.
- 5 Section C of this report outlines ASIC's current and proposed future approach to regulatory technology. We are seeking feedback on this proposed approach.

Providing feedback

- 6 Please provide all feedback on this report in writing to innovationhub@asic.gov.au by 4 July 2017. In particular, we seek feedback on our approach to regulatory technology: see paragraphs 92–94.

B Update on the work of the Innovation Hub

Key points

In March 2015, ASIC launched an Innovation Hub to help financial technology (fintech) businesses navigate Australia's regulatory system in the financial services sector without compromising investor and financial consumer trust and confidence.

The Innovation Hub helps fintech businesses by providing access to senior staff at ASIC to streamline licensing and by offering informal guidance to help bridge any knowledge and resourcing gaps.

Key ASIC initiatives, including engagement with international regulators (through regular meetings and the signing of cooperation agreements) and our 'regulatory sandbox' framework, are driven by the Innovation Hub.

In mid-2016, we expanded the scope of the Innovation Hub to include engagement with the regulatory technology sector.

Supporting innovation

- 7 The Australian Government has implemented a range of initiatives to position Australia at the forefront of the global financial technology industry. The '[Backing Australian fintech](#)' statement details how the Government is driving improvements that enable more beneficial financial services for Australian consumers and help create positive change in our economy.
- 8 Australian regulators are focused on the vital role that fintech businesses are playing in reshaping financial services and capital markets. In addition to developing guidance about how these new developments fit into ASIC's regulatory framework, we launched an [Innovation Hub](#) in March 2015 to help fintech businesses navigate Australia's regulatory system without compromising investor and financial consumer trust and confidence.
- 9 The Innovation Hub's overarching aim is to provide the right balance between innovation and the risk of poor consumer and market integrity outcomes, while promoting the provision of professional and fair financial services and markets in a digital environment.

Fintech opportunities

- 10 New and enhanced technologies and increased computing capabilities are enabling the development of new products and services that can meet the needs of financial consumers and market participants more efficiently and

more cost effectively. These advances also have the potential to enhance financial inclusion, bridge financing gaps and develop financial capabilities.

- 11 Within the context of financial services, ASIC believes that technology has the potential to do three things:
- (a) reduce the cost and improve the efficiency of product and service delivery;
 - (b) empower customers by enabling them to deal directly, more seamlessly, and more flexibly with product and service providers; and
 - (c) empower businesses by enabling them to deliver a better value proposition and customer experience to their customer base.

ASIC's regulation of new fintech businesses

- 12 As technology changes over time, it is natural to experience disruptions that challenge the existing regulatory framework. It is very important that technological change, regardless of the opportunities it creates, does not inadvertently reduce the standard of service provision or trust and confidence in the financial services sector.
- 13 By their nature, innovative business models need to be carefully considered to see where they fit into the regulatory framework. These business models can test legal boundaries and approaches to delivering good outcomes for financial consumers.
- 14 A major difference between new and existing fintech businesses is that start-ups often have limited resources—in terms of time, money and access to professional advice. As new businesses, they may also lack experience in interacting with ASIC.
- 15 In our approach to the regulation of innovative businesses, we focus on harnessing the opportunities of innovation, while ensuring that investors and financial consumers can have trust and confidence in the financial services provided.
- 16 When looking at the regulation of fintech businesses, our philosophy has four components:
- (a) being flexible and adaptable to the speed and nature of change;
 - (b) resisting the temptation to act before properly understanding developments;
 - (c) ensuring that regulatory responses are technologically neutral; and
 - (d) ensuring ASIC has the skills and expertise to be an effective regulator in this sector.
- 17 For a general description of ASIC's role and strategic objectives, see paragraphs 62–69.

ASIC's Innovation Hub

- 18 At the heart of ASIC's response to fintech developments is our Innovation Hub. Established in March 2015, this hub primarily exists to assist new fintech businesses to navigate through ASIC's regulatory framework.
- 19 The Innovation Hub is partly a response to particular challenges faced by new businesses (e.g. a lack of experience with the regulatory framework and limited resources), but it is also a way of recognising that innovative products and services often may not fit within existing rules and policy.
- 20 This is consistent with the Government's deregulatory agenda. Through the Innovation Hub, ASIC is streamlining our engagement with the fintech sector.
- 21 The Innovation Hub aims to help fintech businesses in a few key ways:
- (a) providing access to senior ASIC staff to help streamline processes;
 - (b) offering informal guidance to help bridge any knowledge and resourcing gaps; and
 - (c) helping businesses to better understand ASIC's regulatory framework.
- 22 We are committed to encouraging innovation, particularly where this can lead to better market and consumer outcomes. It is important to note, however, that the Innovation Hub does not want to compromise the fundamental principles of financial services regulation—as reflected in ASIC's strategic priorities—or the licensing process.

Our approach

- 23 The Innovation Hub allows us to:
- (a) engage with the fintech community by hosting and attending industry events at fintech hubs and co-working spaces for start-up businesses;
 - (b) streamline how we facilitate business for innovative business models by providing informal assistance;
 - (c) provide key information through the Innovation Hub website, which is a 'one-stop shop' to access information and services;
 - (d) address innovation issues with a coordinated approach through our Innovation Hub taskforce, which comprises senior staff across ASIC; and
 - (e) through our Digital Finance Advisory Committee (DFAC), consult with experts drawn from a cross-section of the fintech community to help inform how ASIC's efforts are focused in this area.
- 24 Representatives from the Innovation Hub also meet regularly with international regulators to discuss innovation developments and policy proposals.

Engagement

- 25 ASIC's engagement with other fintech initiatives, including physical hubs and co-working spaces that have been established for start-up businesses, helps us form the basis of our approach to financial technology and communication with the fintech community.
- 26 We conduct presentations at fintech meetings and similar events across Australia on key initiatives in this area. Past topics have included the launch of ASIC's Innovation Hub, the regulatory system (with a panel of four other Australian financial regulators), the 'regulatory sandbox' framework and ASIC's view on regulatory technology. In addition, we make senior staff available at meetings and related events to answer questions.
- 27 Senior ASIC staff sit on a range of fintech-related panels and make speeches on ASIC's approach to innovation both in Australia and overseas. These are available on the Innovation Hub webpages.

Informal assistance

- 28 The provision of informal assistance for eligible entities is a key aspect of the Innovation Hub's work. This guidance is intended to help new businesses consider important issues early on in their development.
- 29 The Innovation Hub is supported by a coordination team, with members from across ASIC responsible for assessing requests received for informal assistance from innovative new businesses. The coordination team is an interface for larger working groups on digital financial advice, marketplace lending, equity-based crowd-sourced funding and blockchain.
- 30 Requests for informal assistance are passed on to subject matter experts if:
- (a) the request relates to a genuine innovation; and
 - (b) the person has thought about their business model and obligations in enough detail.
- 31 The Innovation Hub webpages provide relevant information for innovative businesses, including the criteria ASIC uses to decide whether to provide informal assistance.

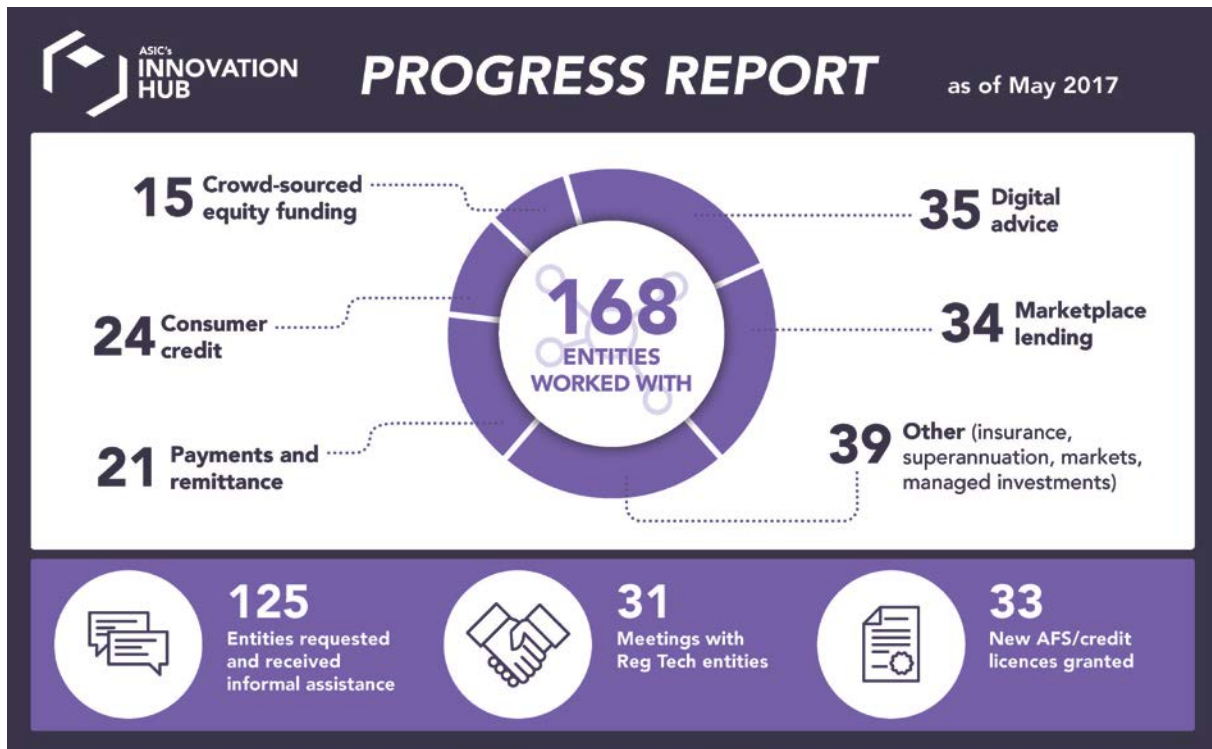
Results

- 32 Since its inception, the Innovation Hub has worked with 168 entities—125 of which have received informal assistance. Since March 2015, ASIC has granted 33 new Australian financial services (AFS) licences and Australian credit licences (credit licences) and 10 variations: see Figure 1.
- 33 Results suggest that providing informal assistance is helping businesses prepare more complete and well-considered applications for licences or

waivers from the law, and is materially reducing the time taken to obtain a licence.

- 34 To date, new fintech businesses who have engaged with the Innovation Hub before submitting their application for a licence are receiving approval materially faster than those who have not engaged with the hub.

Figure 1: Innovation Hub progress report as at May 2017



Note: An [accessible PDF version of the Innovation Hub progress report](#) is available on the Innovation Hub. The data in this progress report is updated periodically and the Innovation Hub version will reflect the latest changes.

Innovation Hub webpages

- 35 The [Innovation Hub webpages](#) have been set up so that innovative businesses can access tailored information and services, contact ASIC and learn about key developments.
- 36 The web content includes:
- tailored guidance for innovative businesses to access relevant information and services from ASIC;
 - information on engaging with ASIC through the Innovation Hub, including our eligibility criteria for informal assistance and details about the licensing process;
 - a series of videos about the Innovation Hub and the licensing process;
 - information on key ASIC initiatives driven by the Innovation Hub;
 - the latest news, presentations and media releases;

- (f) upcoming events and speaking engagements open to the public; and
- (g) a detailed set of frequently asked questions.

Digital Finance Advisory Committee

- 37 ASIC established DFAC to inform how we focus our efforts within the fintech sector. DFAC meets quarterly to advise us on its engagement with the sector, and its members change periodically to ensure that a variety of views are heard.
- 38 The members of DFAC are drawn from a cross-section of the fintech community, as well as academia and consumer backgrounds. Observers from the Treasury and a range of financial regulators also attend these meetings.
- 39 Since its establishment in 2015, DFAC has advised ASIC on key fintech-related developments, issues and opportunities, and has helped the Innovation Hub connect with the sector and target its communications effectively.

Cross-border cooperation

- 40 Given that many fintech businesses are global, or operate across international borders, it is important to take advantage of opportunities to share views, exchange information, and discuss the challenges faced by fintech businesses and the community.
- 41 ASIC collaborates closely with other regulators to understand developments, and help innovative businesses expand their markets into other jurisdictions.
- 42 We attend a number of regular meetings with other international regulators, and participate in quarterly information-sharing calls with about seven other regulators, including the US Consumer Financial Protection Bureau, the Monetary Authority of Singapore (MAS), the Hong Kong Securities and Futures Commission, the UK Financial Conduct Authority (FCA), the US Commodity Futures Trading Commission, the Ontario Securities Commission (OSC) and the European Securities and Markets Authority.
- 43 ASIC has also signed cooperation agreements with MAS, FCA, OSC, the Capital Markets Authority of Kenya and the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan).
- 44 These agreements establish a framework for information sharing relating to innovation in financial services, including emerging market trends and regulatory issues arising from the growth in innovation. A number of these agreements also enable ASIC to refer Australian fintech businesses to other regulators' fintech assistance programs—and vice versa.

45 To date, ASIC has received two referrals under these agreements. Informally, ASIC has also met with numerous international fintech businesses referred to us by industry or trade bodies, including delegations from the United Kingdom and the United States.

46 ASIC is also a signatory to the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding. This multilateral agreement gives commitment among over 100 securities regulators to provide each other with mutual assistance and cooperation, particularly in relation to enforcement of securities laws.

Regulatory guidance

47 The Innovation Hub's taskforce has spearheaded the development of regulatory guidance to help entities in new areas. In response to the growth of financial technology, ASIC has both adapted existing regulations and issued new guidance.

48 Examples include the following:

- (a) [Regulatory Guide 255](#) *Providing digital financial product advice to retail clients* (RG 255) aims to assist industry to understand ASIC's approach to regulating digital advice.
- (b) [Information Sheet 213](#) *Marketplace lending (peer-to-peer lending) products* (INFO 213) provides guidance to assist providers of marketplace lending products and others providing financial services in connection with these products. It outlines the relevant disclosure requirements, regulatory obligations and good practice examples.
- (c) [Information Sheet 219](#) *Evaluating distributed ledger technology* (INFO 219) helps those who are considering operating market infrastructure, or providing financial or consumer credit services, using distributed ledger technology (DLT)—or blockchain. This guidance was prepared because there has been intense interest in DLT and we want to help facilitate the range of potential applications. It also gives new fintech businesses and existing businesses the opportunity to evaluate whether the use of DLT would allow an entity to meet its regulatory obligations, as well as to fast-track any discussions those entities have with ASIC.
- (d) [Regulatory Guide 257](#) *Testing fintech products and services without holding an AFS or credit licence* (RG 257) contains information about Australia's 'regulatory sandbox' framework (see below).

49 The Innovation Hub taskforce also plays an important coordination role in ASIC's new policy work relating to innovation, including on equity-based crowd-sourced funding.

Regulatory sandbox framework

- 50 A key initiative driven by the Innovation Hub to assist fintech businesses has been the creation of a ‘regulatory sandbox’ framework—essentially a ‘lighter touch’ regulatory environment—to enable the testing of innovative business models. Launched in December 2016, the regulatory sandbox framework is currently being presented to the fintech sector in Australia and is being used by one entity
- 51 ASIC’s solution was developed after wide consultation with the fintech sector in 2016–17 to understand the issues and barriers faced by new innovative businesses seeking to enter the financial services market in Australia.
- 52 Part of this process involved looking at alternative approaches that other regulators were developing, as well as looking at our existing regulatory framework, and deepening our understanding of the unique challenges faced by fintech businesses in Australia. The resulting regulatory sandbox framework was designed to complement ASIC’s existing framework (which has significant flexibility) and exemptions already provided by the law or ASIC which mean that a licence is not required. Examples include existing ASIC relief (e.g. for non-cash payment products like stored-value cards) and existing regulations (e.g. a licence is often not required for certain foreign exchange services). These exemptions aim to address three interconnected issues that Australian fintech businesses face:
- (a) *speed to market*—by providing an environment for testing without a licence;
 - (b) *organisational competence*—by bridging knowledge gaps with more examples; and
 - (c) *greater flexibility and access to capital*—by reducing testing costs.
- 53 ASIC’s regulatory sandbox framework is based on additional guidance and a limited licensing exemption. It comprises three broad options for testing new innovative products or services:
- (a) providing additional guidance and examples on how ASIC exercises discretion under existing policy to assess the organisational competence of a licence applicant;
 - (b) modifying ASIC’s policy on a licensee’s organisational competence for some heavily automated businesses that are limited in scale; and
 - (c) implementing a limited industry-wide fintech licensing exemption to allow eligible businesses to test specified services for up to 12 months without an AFS licence or credit licence—provided that consumer protections are in place.

- 54 Entities using the fintech licensing exemption have the opportunity to test a business model and investigate what strategy will work best for their business. At the same time, it ensures that financial consumers who access their services still have fundamental protections under the law, such as conduct and disclosure standards, dispute resolution and professional indemnity insurance.
- 55 This is a 'whitelist' approach as there is no ASIC review of each proposed test. By contrast, regulatory sandbox proposals in other jurisdictions have involved the regulator selecting applicants and negotiating individual terms for testing fintech products and services.
- 56 We are also the only regulator to allow an automatic fintech licensing exemption for a defined set of products and limited time period.
- 57 ASIC will commence a review of the entire framework in 2017–18 and will seek feedback from industry and other stakeholders as part of this process.
- 58 For further information on the licensing exemption for fintech testing, see Figure 2; for further information on the flexibility for new businesses in our financial services and credit framework, see Figure 3.

Figure 2: Licensing exemption for fintech testing

Licensing exemption for fintech testing

ASIC has a fintech licensing exemption, to facilitate the testing of new fintech services. Check whether you meet the general conditions that apply, and that the service and product you plan to test are eligible.



GENERAL CONDITIONS

You must:

- ◆ Have no more than 100 retail clients (unlimited wholesale clients)
- ◆ Plan to test for no more than 12 months
- ◆ Have total customer exposure of no more than \$5 million
- ◆ Have adequate compensation arrangements (such as professional indemnity insurance)
- ◆ Have dispute resolution processes in place
- ◆ Meet disclosure and conduct requirements

WHAT SERVICE DO YOU WANT TO TEST?

<p>Eligible</p> <ul style="list-style-type: none"> ◆ Providing advice ◆ Dealing in or distributing products 	<p>Not eligible</p> <ul style="list-style-type: none"> ◆ Issuing my own product ◆ Lending money to consumers ◆ Operating my own managed investment scheme (e.g. a marketplace lending platform)
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ELIGIBLE?

Next steps

Read Regulatory Guide 257 for more detail on exemption conditions and on notifying ASIC that you will rely on the licensing exemption for fintech testing

WHAT PRODUCTS WILL YOU BE ADVISING ON OR DISTRIBUTING?

<p>Eligible</p> <ul style="list-style-type: none"> ◆ Deposit products, with a maximum \$10,000 balance ◆ Payment products, if ADI-issued and with a maximum \$10,000 balance ◆ General insurance, for personal property and home contents and with a maximum of \$50,000 insured ◆ Liquid investments, for listed Australian securities or simple schemes and with a maximum \$10,000 exposure ◆ Consumer credit contracts with certain features, and a loan size of between \$2,001 and \$25,000 	<p>Not eligible</p> <ul style="list-style-type: none"> ◆ Other products
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NOT ELIGIBLE?

Other options

- ◆ Rely on another exemption to test the service and product
- ◆ Request an individual waiver from ASIC
- ◆ Act on behalf of a licensee
- ◆ Apply for a licence from ASIC

Next steps

Read Regulatory Guide 257 for guidance on these options

Note: An [accessible version of the licensing exemption for fintech testing infographic](#) is available on the Innovation Hub.

Figure 3: ASIC's financial services and credit frameworks—flexibility for new businesses

ASIC's financial services and credit frameworks – flexibility for new businesses



ASIC's informal assistance to fintech startups

- We will provide informal guidance and pointers to new, innovative businesses that meet some basic eligibility criteria
- This helps startups to understand their options and think about important regulatory issues early-on
- From March 2015 to November 2016, we provided informal assistance to 104 fintech startups.

PROVIDING FINANCIAL SERVICES AND/OR CREDIT – YOUR OPTIONS

GET A LICENCE FROM ASIC

- ◆ You can comply with the law by obtaining your own financial services or credit licence
- ◆ Your obligations once licensed scale up or down depending on:
 - the services you provide
 - the products those services relate to
 - the types of clients you deal with.

Organisational competence and ASIC discretion

- ◆ Licensees must demonstrate that their 'responsible managers' have the knowledge and skills needed to manage their business
- ◆ ASIC can exercise discretion in how it assesses organisational competence (see Option 5 in our Regulatory Guide 105) and has done so for 21 innovative businesses licensed since March 2015.

OR

OPERATE AS A REPRESENTATIVE OF A LICENSEE

- ◆ Someone with a licence can authorise you to act as their representative and provide services on their behalf
- ◆ We do not have a preference about whether a business gets a licence or operates as a representative.

OR

OPERATE UNDER ASIC RELIEF FROM THE LAW

- ◆ ASIC can grant relief from the law for individual businesses or products, or for types of businesses or products
- ◆ ASIC relief can switch off the licensing requirement, or tailor how the law applies
- ◆ We have granted relief relevant to new businesses, including to:
 - allow some unlicensed service testing (the fintech licensing exemption).
 - allow services for low value non-cash payments

YOUR OBLIGATIONS

To provide financial services and/or credit within the law, you must comply with:

- ◆ The conditions of your licence (if you have one)
- ◆ The laws that apply to you (or your licensee)
- ◆ The conditions on any relief ASIC has given you.

Note: An [accessible version of ASIC's financial services and credit frameworks infographic](#) is available on the Innovation Hub.

Engaging with the regtech sector

- 59 In mid-2016, we expanded the scope of the Innovation Hub to include engagement with regulatory technology (or 'regtech').
- 60 In February 2017, ASIC hosted our first regtech roundtable discussion to provide a forum for a variety of views to be expressed on the application of regulatory technology in Australia, and potential future opportunities.
- 61 Section C focuses on ASIC's current and proposed future approach to regulatory technology, including observations from the roundtable event.

ASIC's role

- 62 ASIC is a regulator of financial services and markets in Australia. We regulate the various exchanges and markets, and also those who develop, sell and advise on investment and credit products. We act as a gatekeeper, and take action as required where misconduct is detected.
- 63 Our goal is to ensure that the financial services and markets we regulate operate to fund the real economy, drive economic growth and, in doing so, contribute to an improved standard of living for all Australians.
- 64 We are aware that this is only possible if investors, financial consumers and those needing capital to build their businesses have trust and confidence in Australia's financial services and markets.

ASIC's strategic priorities

- 65 Our strategic priorities are to:
- (a) promote investor and financial consumer trust and confidence;
 - (b) ensure fair, orderly and transparent markets; and
 - (c) provide efficient and accessible registration.
- 66 Our approach to existing and new regulation, or regulatory change, is based on these strategic priorities.

Other regulators of financial services

- 67 ASIC is only one of many regulators of financial services in Australia. Others include the Australian Prudential Regulation Authority (APRA), Australian Taxation Office (ATO), Australian Transaction Reports and Analysis Centre (AUSTRAC) and Reserve Bank of Australia (RBA).
- 68 We believe that industry and regulators have a common interest in seeing innovation that fosters investor and financial consumer trust and confidence.

- 69 Each regulator has a different mandate and set of objectives, but there is often an overlap in these objectives. Australian regulators have therefore adopted a collaborative approach.

C Regulatory technology

Key points

ASIC's proposed future approach to regulatory technology (or 'regtech') includes establishing a new regtech liaison group, continuing future technology trials, and hosting a problem-solving event.

ASIC considers that the regtech sector has enormous potential to help organisations build a culture of compliance, identify learning opportunities, and save time and money relating to regulatory matters.

In mid-2016, we expanded the scope of the Innovation Hub to include engagement with the regtech sector. We are keen to hear from businesses that wish to share their progress in the development and application of regulatory technology, as well as those seeking informal assistance. In February 2017, ASIC hosted our first regtech roundtable discussion to provide a forum for a variety of views to be expressed on the application of regulatory technology in Australia, and potential future opportunities.

Our current regtech initiatives include providing informal assistance to regtech businesses, international referrals, ongoing engagement at meetings and other events, and a number of technology trials.

We are seeking feedback from innovative financial businesses, technology businesses, financial services providers, academics, professional firms, consumer representatives and other interested parties on both our current and proposed future approach to regulatory technology.

Engaging with regtech developments

- 70 Regtech developments have enormous potential to support the way that regulatory work and industry engagement are undertaken. Specifically, ASIC believes regulatory technology can help organisations build a culture of compliance, identify learning opportunities, and save time and money on regulatory matters while improving compliance and outcomes for consumers.
- 71 In mid-2016, we expanded the scope of the Innovation Hub to include engagement with the regtech sector. We are keen to hear from businesses that wish to share their progress in the development and application of regulatory technology, as well as those seeking informal assistance in developing their business. We encourage both new and existing regtech developers to make contact with us through the Innovation Hub.

What is regulatory technology?

- 72 There are many descriptions of regulatory technology (or 'regtech'). For this report, we consider regulatory technology to be the use of new technologies

to solve regulatory and compliance requirements more effectively and efficiently. These technologies could include use of artificial intelligence, natural language processing, data reporting, regulatory codification and big data analysis technologies.

Guiding principles

- 73 ASIC's approach to regulatory technology is guided by a set of basic principles that include:
- (a) working towards outcomes in regulatory technology that align with our strategic priorities and approach to innovation;
 - (b) undertaking a number of focused initiatives that will deliver outcomes in the near term; and
 - (c) learning from industry input, good international case studies and our own experience from engaging with the regtech sector.

Regtech roundtable 2017

- 74 In February 2017, ASIC hosted our first regtech roundtable discussion to hear a variety of views, including many around future opportunities, on the application of regtech in Australia.
- 75 The discussion focused on the current regtech landscape, and its development and future potential to promote good risk management and compliance outcomes. It also explored the commercial, regulatory and practical barriers that may inhibit the future potential of regulatory technology in Australia, and the options that exist to respond to these barriers, including the steps that industry and ASIC can take to help promote the development and application of regulatory technology.
- 76 We have considered the ideas discussed at the roundtable in forming a proposed future approach to regulatory technology.
- 77 For further detail on the themes explored at the roundtable discussion, and an event summary, see paragraphs 95–97.

ASIC's approach to regtech

- 78 Our approach to regulatory technology for the coming years comprises proposed new ideas and a range of initiatives that we currently have underway.

Our proposed future approach

79 The new initiatives proposed below are intended to complement ASIC's current regtech activities.

Establishing a new regtech liaison group

80 We propose to establish a new regtech liaison group, comprising industry, technology firms, academics, consultancies, regulators and consumer bodies. We propose that this group would meet every four months, and this would facilitate networking, discussion of regtech developments and opportunities to collaborate on initiatives that promote positive applications of regulatory technology. (These discussions may or may not include ASIC and other regulators.)

Continued use of technology trials

81 We propose to commit to a small number of new trials using regtech in our regulatory supervisory and enforcement work where the areas of focus are consistent with ASIC's business plan priorities.

82 We would look to update the market on these trials—at least, in general terms. We consider that sharing knowledge about regtech trials will promote the wider use of technologies that promote good consumer and market integrity outcomes.

Hosting a problem-solving event

83 We propose to undertake a problem-solving event (otherwise known as a 'hackathon') together with industry later in 2017.

84 The FCA and OSC have conducted their own forms of problem-solving events, which were convened by the regulators and hosted by industry. The events ran over two days, involved no cash prizes and were independently judged. We consider such events to have potential to stimulate thinking and approaches to deal with regulating problems commonly faced by the financial services sector.

85 If the event goes well, we would consider co-hosting such events in the future. Possible topics for consideration include:

- (a) regulatory reporting;
- (b) promoting good communication outcomes for consumers in digital environments; and
- (c) cyber security.

Our current initiatives

86 ASIC's current regtech initiatives are as follows:

Providing informal assistance to regtech businesses

87 Through the Innovation Hub, we provide informal assistance to regtech businesses that are focused on helping clients meet their regulatory requirements more efficiently and effectively than using their existing technological capabilities.

Engagement with the regtech community

88 Since announcing an interest in regulatory technology in mid-2016, ASIC has had over 30 meetings with regtech stakeholders and service providers to better understand their business models and regtech development within the sector more widely.

89 Other current regtech engagement includes hosting and attending regtech events and meetings with domestic and international regulators to discuss related developments. The recent regtech roundtable discussion hosted by ASIC was an example of our engagement with the regtech sector.

Technology trials

90 We are currently conducting a set of trials of regtech. Examples of this include:

- (a) a cognitive tool to analyse webpages of service providers in the self-managed superannuation fund sector;
- (b) machine learning applications assessing document sets to identify useful evidence;
- (c) a social media monitoring tool; and
- (d) markets and graph analytic tools to support identification of connections between entities.

International referrals

91 ASIC has mechanisms in place, under cooperation agreements with a number of international regulators, to refer regtech providers to other regulators' fintech assistance programs.

Feedback requested

92 We welcome feedback on our proposed future approach to regulatory technology. In particular, we are seeking comments on the initiatives listed in Table 1.

Table 1: Feedback questions on ASIC's proposed future approach to regtech

Our overall approach	1. Do you have any comments or suggestions on ASIC's proposed future approach? We would welcome details on any initiatives you would like to suggest.
Establishing a regtech liaison group	2. Specifically concerning the liaison group proposal, do you have any comments on: <ul style="list-style-type: none"> (a) the nature of this group; (b) the proposed purposes of the group; (c) how regularly this group should meet; (d) whether the group should be an invite-only structure, an open invitation or some hybrid model; (e) how big or small should this group be; or (f) what should be the primary purpose of this group (e.g. information sharing, networking, or providing opportunities for collaboration with industry, or with ASIC and other regulators)?
Continued use of technology trials	3. What kind of information would the industry like to know about ASIC's use of, or trials of, regtech applications or approaches? Why?
Hosting a problem-solving event	4. Do you have any comments or suggestions on topics that could be considered at a problem-solving event? What other factors need to be considered? For example: <ul style="list-style-type: none"> (a) How should such events be designed? (b) What subjects or problems lend themselves to such an event? Why? (c) What other considerations should ASIC take into account in arranging such an event?

How to provide feedback

- 93 We are flexible in how we receive feedback on this report. We would welcome informal feedback by email or traditional formal letters.
- 94 We ask that all feedback is sent to innovationhub@asic.gov.au by 4 July 2017.

Summary of regtech roundtable

- 95 In February 2017, ASIC hosted our first regtech roundtable discussion in Sydney and Melbourne. ASIC heard a variety of views, including many around future opportunities, on the application of regtech in Australia. There was a strong turnout, with 81 entities from the sector participating in a robust discussion on the regtech landscape, while 21 other regulators, government officials and media observed.
- 96 The group heard from a range of speakers from KPMG, Blackhall & Pearl, Thomson Reuters and BlackRock Solutions. Kim Heras from 25fifteen and the Innovation Hub's DFAC facilitated the discussion.
- 97 The regtech roundtable discussion had two parts. We have set out in the boxes below the focus of each session and the topics discussed.

Session One: Regtech developments, benefits and risks

This session focused on the current regtech landscape, and its development and future potential to promote good risk management and compliance outcomes.

The following topics guided the discussion:

- Do you think there is something different about the nature of regtech developments today than in the past? If so, what are those differences and what is driving them?
- What is the potential for delivering enhanced market integrity and consumer outcomes through the use of new regulatory technologies (e.g. the use of big data analytics, biometrics, machine learning and artificial intelligence)?
- Do you think regtech and the application of behavioural insights can support building a better culture in financial services firms? How can this be done?
- What may be some of the risks in the application of regtech? How might these be managed or avoided?
- How will the use of new regtech applications change the expectations clients may have of financial services providers and regulators?

Session Two: Regtech issues, barriers and potential responses

This session focused on the commercial, regulatory or practical barriers to the future potential of regtech in Australia, and the options that exist to respond to these barriers, including what industry and ASIC can do to help promote the development and application of regtech.

The following topics guided the discussion:

- What do you think are some of the major practical and regulatory issues or barriers to the use of new regtech applications?
- Is the Australian financial services sector a global leader or follower in the use of new regtech applications? Why?
- What role do you see industry or regulators playing in the adoption or promotion of new regtech applications?
- What are some of the key practical things regulators can do to promote the development and use of regulatory technology that delivers positive risk management and compliance outcomes? Are there any relevant priorities?
- How should industry, regulators and other stakeholders engage to promote the continuing development of regulatory technology that promotes positive risk management and compliance outcomes?

Themes that emerged at the roundtable

98 Some of the key themes that emerged during the roundtable discussion included the following:

- (a) *Current regtech environment*—There are a combination of forces driving present opportunities, including computer capacity, storage and use of data as well as new technological applications, and an industry focus on efficiency while maintaining a conduct risk management focus.
- (b) *Real-time monitoring*—A major incentive for the sector is the opportunity regulatory technology offers to save costs and move from a ‘rear view mirror’ approach in compliance to a learning and predictive approach. One participant described this as changing the role of regulators ‘from policeman to coach’. The implication of these developments on the expectations for firms and regulators were discussed.
- (c) *Machine learning*—The opportunities offered by big data and machine learning, including through collaboration across industry, are substantial.
- (d) *Training and development*—There are opportunities for near real time monitoring of conduct by financial services providers. Other similar tools are being used by firms for continuing professional development and training on the job.
- (e) *Culture*—There is potential to promote good cultural outcomes, such as building an effective compliance culture, by identifying and working with good cultural agents in a firm and providing coaching or similar to deal with poor cultural agents.
- (f) *Role of regulators*—Regulators need to keep an open mind and try to harvest the benefits of regulatory technology by adopting a technology-neutral, consultative and facilitative approach. Questions were raised about the role of regulators in collaborating with industry and supporting the development of regtech utilities.
- (g) *Regtech and ownership of data*—Concerns were raised about the data generated by regtech services. Who owns it? Who can access it? How can we best use it, given that only a tiny proportion of data the world currently has—about 0.5%—is analysed and used?
- (h) *Created barriers*—Some new regtech businesses observed that it was difficult to obtain interest from existing businesses where proprietary systems and existing long-term compliance structures were in place.
- (i) *Priority areas of focus*—Attendees raised a number of issues that should be considered as priority areas for action by all stakeholders. These included problems relating to digital identity, access to data, cyber security and regulatory reporting standards.

Key risks observed at the roundtable

- 99 We also noted some of the key risks that emerged during the regtech roundtable discussion. These included the following:
- (a) *Cyber and information security*—Information security was seen as both a major growing issue and the cause of a growing new industry in itself as data and privacy expectations grow.
 - (b) *The impact on existing compliance and risk management staff*—It was suggested that some staff see regulatory technology as a ‘threat’, while others might see it as an opportunity to improve their response to increasing regulatory obligations. It was generally agreed that regulatory technology means changes for staff, and this needs to be carefully introduced and thoughtfully handled.
 - (c) *Increased systemic risk*—It was noted that risks may emerge through a concentration of reliance on a limited number of regtech technologies.
 - (d) *Treating new compliance tools as a ‘tick and flick’ process without human involvement*—Concerns were expressed that regulatory technology will replace humans with automated systems that are relied on excessively. A number of attendees emphasised that new regulatory technology is an ‘enabler’ and cannot replace human judgement.
 - (e) *Certify regtech providers or extend licensing regime*—Some queried whether there needed to be some commentary and systematic oversight by regulators of regtech service providers for firms to provide a base level of business validation to industry.

International comparison

- 100 In any consideration of regulatory technology, it is necessary to maintain a global perspective. ASIC monitors international developments in the regtech industry and related areas through our local and international networks.
- 101 We continue to use our international networks to help inform our thinking and, through the work of the Innovation Hub, closely coordinate with many international bodies to both develop a better understanding internationally and help facilitate the growth of regulatory technology.

International context

- 102 The list below includes some examples of recent regtech initiatives undertaken by international regulators:
- (a) hosting regtech forums;

- (b) focusing on application program interfaces (APIs)—this includes opening these up for regulatory technology or other purposes. Some governments are facilitating this through their regulators and other API initiatives;
- (c) co-hosting regtech ‘hackathons’—with the aims of educating the marketplace on problems (and possible solutions), promoting collaboration, and demonstrating to the market that regulators are willing to learn from the fintech and regtech sectors;
- (d) inviting feedback on regtech developments. Some examples of reported feedback include that:
 - (i) regulators should explore how to improve industry standards, including on collaboration, engagement and certification;
 - (ii) regulatory uncertainty is a challenge for regtech providers; and
 - (iii) internationally consistent regulations and legal structures would assist in the development of regulatory technology; and
- (e) undertaking trials of regtech applications, sometimes in collaboration with industry.