



ASIC

Australian Securities & Investments Commission

Update on ASIC's priorities

*A speech by Greg Medcraft, Chairman,
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CHECK AGAINST DELIVERY

Introduction

Good afternoon everyone. Thank you for inviting me here to speak at this lunch today.

Today I would like to talk to you about what we see as ASIC's long-term challenges and how we are responding.

ASIC's vision and challenges

ASIC's vision is to allow markets to fund the economy, and in turn, economic growth. In doing so, contributing to the financial wellbeing 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 five key challenges we face. These challenges are:

- culture and conduct – aligning conduct in a market based system with investor and consumer trust and confidence
- building financial capability

- digital disruption and cyber resilience in financial services and markets
- globalisation of financial markets, products and services
- structural and demographic change in our financial system.

We will set out these challenges in our four-year Corporate Plan, which will be published at the end of August.

How ASIC is responding

Culture and conduct

Our first challenge is about ensuring conduct that supports investor and consumer trust and confidence.

At the moment, there are some significant changes underway in the regulatory landscape in Australia. Most of you will be familiar with the Financial System Inquiry, chaired by David Murray, which delivered its final report in December 2014. The Financial System Inquiry examined what was needed to position Australia's financial system to meet our evolving needs and economic growth.

The Financial System Inquiry made findings about the limitations of the current regulatory framework, including areas in ASIC's regulatory toolkit that should be improved to meet current and future challenges.

The Financial System Inquiry emphasised that the regulatory framework has relied very heavily on disclosure to deal with market problems and poor consumer outcomes. While disclosure is important, it can be ineffective for a range of reasons, such as consumer disengagement, behavioural biases or misaligned interests between providers and consumers.

In December 2016, the Government released a consultation paper seeking feedback on two key proposals from the Financial System Inquiry:

- a design and distribution obligation, and
- a product intervention power.

Under the design and distribution obligation, product issuers and distributors would need to consider the type of consumer whose financial needs would be addressed by buying the product, and the channel best suited to distributing the product.

As a complement to these obligations, the Government has also consulted on a product intervention power for ASIC that would enable us to intervene where a product is identified as creating a risk of significant consumer detriment.

Further, the Government is reviewing ASIC's enforcement powers and the adequacy of penalties for breaches of the law. Appropriate penalties are a critical part of deterring misconduct.

These reforms taken together would enable ASIC to go beyond individual disclosure in addressing market problems where a traditional disclosure approach is not working. They will enable ASIC to more effectively target those firms and individuals that do the wrong thing.

Initiatives that promote competition in financial services can also help to ensure that customers receive better quality products, at better prices. The Productivity Commission is currently undertaking a review of competition in banking.

Building financial capability

Our second challenge is building financial capability.

Improving the financial capability of investors and consumers is a key piece of ASIC's toolkit. It complements our regulatory activities by empowering investors and consumers to have greater confidence and to make good financial decisions.

ASIC delivers a comprehensive financial literacy program to build capability which includes three key areas:

- leading the National Financial Literacy Strategy with the support and guidance of the Australian Government Financial Literacy Board, in line with international best practice
- providing impartial and trusted financial guidance and tools to support informed financial decision-making for all Australians, predominantly through ASIC's MoneySmart website, and
- delivering ASIC's MoneySmart Teaching program to support financial literacy in the formal education sector.

Digital disruption and cyber resilience

Our third challenge is digital disruption and cyber resilience. We are living in a technology-driven world with innovation happening at an unprecedented pace.

Regulators should seek to create the right environment to encourage fintech and innovation, while also ensuring that consumers and investors can maintain trust and confidence in markets. It is not always easy to find a balance between these goals. Fintech businesses do not always fit with traditional business models and regulatory frameworks.

As regulators, it is important for us to listen to industry – we are continuing to engage to ensure we understand new developments. We do this through our Innovation Hub that helps fintechs to navigate the regulatory environment.

In order to keep pace with the rapidly changing world around us, regulators must be proactive in understanding how our actions can influence the ability of fintech businesses to grow and flourish.

Regulators are already doing a lot of work through the International Organization of Securities Commissions (IOSCO) to prepare for the inevitable transformation of the

financial sector. Most recently, for example, IOSCO also completed and released a detailed research report on fintech in February this year.

Globalisation

Our modern financial system is global in nature – and we see globalisation as one of our key challenges.

We now take for granted the ability for investment to flow across borders. The system we have built has helped to bring prosperity to many parts of the world. Globalisation is increasing the interconnectedness of markets, which can heighten the impact of market risk events, and in turn, confidence in the global financial system.

In my role as the Chairman of ASIC, and previously, as the Chair of the IOSCO Board, I have seen how effective regulators can be when we work together to solve problems. Global challenges often require global solutions.

The risk is that if we allow too much fragmentation in the system – for example, as a result of differences in national approaches, or along technology lines – we will not be able to realise the benefits of the new technologies that are currently being developed. And this also affects how fairly those benefits are shared in society.

Coordination is important across the board, but especially in the rapidly growing area of fintech. Global regulatory coordination efforts are a big way of preventing the risk of fragmentation from becoming a reality.

Global regulatory bodies such as IOSCO play an important role in encouraging coordination by bringing countries together to research and discuss the challenges we face, and then agree on common standards and principles. Through IOSCO, we are building better frameworks to allow regulators to share information.

Currently, 112 IOSCO members are signatories to the global Multilateral Memorandum of Understanding (MMoU). Under this MMoU, securities regulators can provide information and assistance, including records, to one another to help combat cross-border fraud and misconduct.

Structural and demographic change

Structural and demographic change is one of our key challenges. In particular, it is a demographic reality for Australia that we have an increasing number of retirees and an ageing of the population.

At ASIC we recognise that this raises issues of fundamental and strategic importance to the financial services sector, the community and economy. There are generally well known issues in this area:

- Retirement planning is complex, requires people to consider the long term, and to think conceptually about difficult concepts, including your own mortality.

- As people age, they may be faced with their own cognitive decline and lack the ability to make sound decisions for themselves.
- Older Australians may also be more vulnerable to scams or elder abuse.
- Older Australians may lack familiarity with the technology used to deliver financial products and services.

Internally, ASIC has established an Ageing Population Coordination Group, chaired by myself, to reflect ASIC's focus on ageing and financial services. Through this work, we will seek to understand and address concerns that arise in each major stage in the retirement and ageing process.

These range from initial decision-making relating to commencing retirement income, the ability to continue to manage retirement income products and structures with onset of cognitive decline, and later the need to interact with aged care.

Conclusion

In conclusion today, I think that there are real reasons for optimism. We live in exciting times. But these are not without significant challenges.

I do think that Australia has now set the foundation for a broad program of reforms to ensure we are better placed to regulate the fast pace of change in our financial system.

At ASIC, we continue to focus on the opportunities to harness the benefits of innovation and change, while we minimise the risks.

Thank you very much for this opportunity to speak with you. I would be really happy to hear your views, and keep discussing any of these areas with you.