



ASIC'S CORPORATE PLAN 2017–18 TO 2020–21

Focus 2017–18



ASIC

Australian Securities & Investments Commission

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Chairman's message

Welcome to ASIC's Corporate Plan for 2017–21

Over the next four years, ASIC will continue to focus on our vision to allow markets to fund the economy and, in turn, economic growth. In doing so, we will contribute to the financial wellbeing of all Australians. We do this by:

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

Change in the financial sector continues unabated, driven by demographic and structural change, globalisation and technological changes.

The outcomes of international elections and referendums may also bring changes to global trade and capital flows.

As always, changes may challenge trust and confidence and market integrity. However, if changes are well-managed, they can also enhance the financial wellbeing of all Australians.

Understanding behaviours is central to ASIC's approach – decisions are often influenced by behavioural biases.

Behavioural biases are among the factors that can affect investors' and consumers' financial capability, which in turn influences their financial decisions and outcomes.

In this year's corporate plan, we highlight the need to keep building people's financial capability to support them in planning for their future.

For gatekeepers, culture, incentives and deterrence continue to be factors driving behaviours in the sectors we regulate.

Gatekeepers play a critical role in managing these challenges and the overall health of the financial system. Their conduct – at the firm and industry level – affects investor and consumer trust and confidence.

Gatekeepers also play a crucial role in providing good quality products and services that are accessible, meet different investor and consumer needs, and deliver value for money.

This year, we again outline our vision of 'what good looks like' for the sectors we regulate.

Achieving our vision

We will use our 'detect, understand and respond' approach and regulatory toolkit to identify and address misconduct. That is, we will:

- ♦ detect wrongdoing through surveillance, gatekeeper breach reports and reports from the public and whistleblowers
- ♦ understand our environment through continual scanning to identify issues and manage risks
- ♦ respond to wrongdoing and the risk of wrongdoing.

ASIC'S VISION

Our vision is to allow markets to fund the economy and, in turn, economic growth.
In doing so, we will contribute to the financial wellbeing of all Australians.

We do this by:

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

Three cornerstones of the market-based financial system

Investors and consumers

Gatekeepers

Rule of law
Legislation and case law

Organisationally, we continue on our journey of transformational change – to better position us to meet the ongoing challenges to achieving our vision.

In 2017–18, we will continue to strengthen our capabilities by:

- ♦ standardising processes and modernising technology via an integrated digital platform
- ♦ further developing expertise in data management, analytics and the application of new technology-based regulatory techniques and tools
- ♦ implementing our strategy to make ASIC a more data-driven law enforcement agency.

We will continue to progress proactive surveillances that are aimed at improving consumer outcomes in financial services. Where we detect misconduct, we will take enforcement action.

We will also continue to work with Government on law reform, such as enhancements to ASIC’s toolkit for improving consumer outcomes (e.g. enforcement powers, penalties and financial product governance and intervention), whistleblower protections and the proposed ASIC competition mandate.

Significantly, the introduction of an industry funding model will provide us with greater certainty of funding and ensure we are adequately resourced to achieve our vision. Since those who create the need for and benefit from regulation will bear the costs, it will create more incentive for self-regulation and improve behaviour.

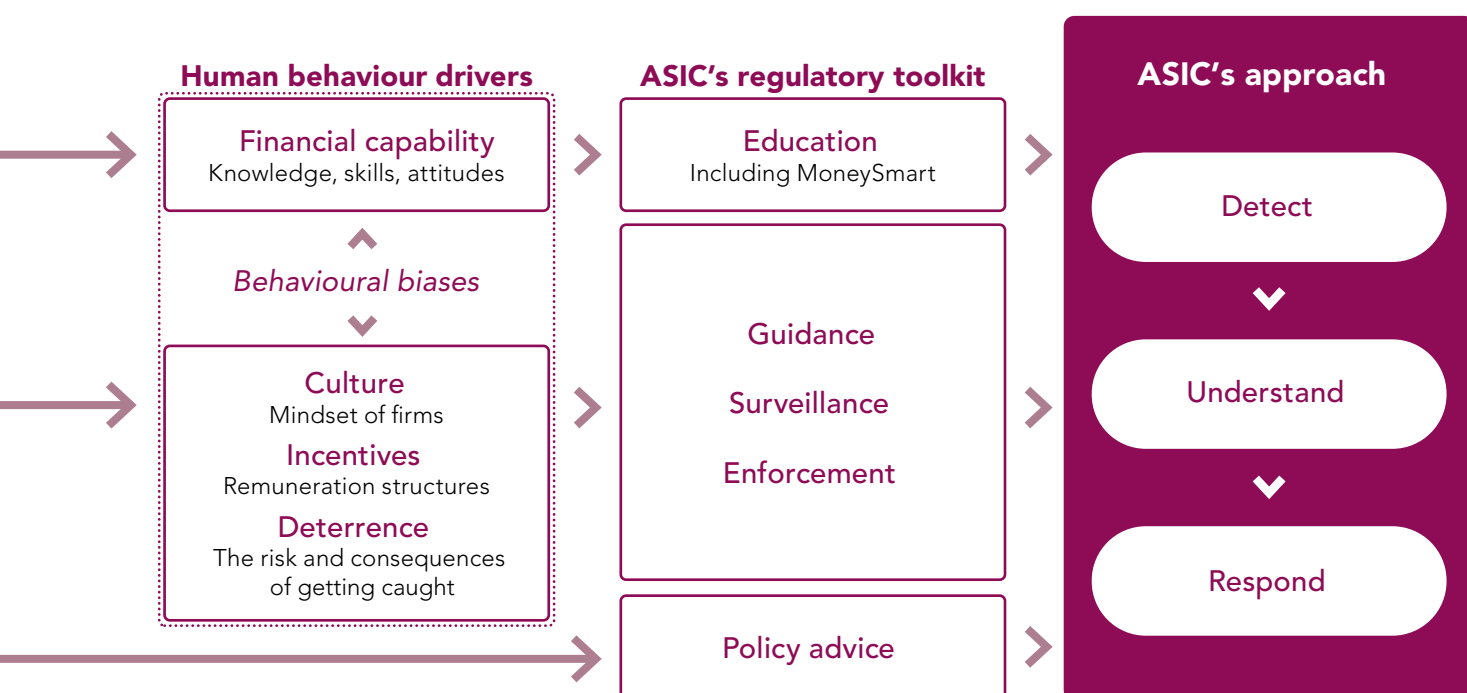
This corporate plan covers the period from 2017–18 to 2020–21. It sets out our vision, long-term challenges, key risks and strategy over this period.

We will identify new trends or risks and develop measures to address the challenges that may arise from a rapidly evolving digital environment.

Ensuring that Australians can have trust and confidence in the financial system and that markets are fair and efficient is at the heart of everything we do.



Greg Medcraft
Chairman



Our vision

Achieving our vision is at the heart of everything we do.

ASIC's vision is to allow markets to fund the economy and, in turn, economic growth. In doing so, we will contribute to the financial wellbeing of all Australians. We do this by:

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

Our vision reflects the objectives under the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

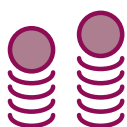
Our regulatory system is not designed to eliminate market risk, prevent all wrongdoing, or ensure compensation for all investors who lose money as a result of misconduct.

Consistent with the principles on which our regulatory system is based, we work to achieve the best level of financial resilience we can with the resources we have.

ASIC's 2017–18 corporate plan covers the period from 2017–18 to 2020–21, and has been prepared as required by s35(1)(b) of the *Public Governance, Performance and Accountability Act 2013*.

Note: Along with this corporate plan, we will publish summary business plans by 31 October 2017.

ASIC's work contributes to the financial wellbeing of all Australians, since financial services and markets are central to our economy.



Economy

- ◆ 433,500 employed Australians work in financial services¹
- ◆ 8.8% of 2015–16 economic activity was contributed by financial services²
- ◆ 193,489 businesses are in financial services, representing the economy's fastest growing industry³



Financial services and consumer credit

- ◆ 8.7 million Australian households hold deposits^{4,5}
- ◆ 6.2 million households have debt^{6,7}
- ◆ 3.2 million households hold a mortgage over their primary residence^{8,9}
- ◆ 2.3 million Australians aged 18+ received advice from a financial planner in the 12 months to July 2016¹⁰
- ◆ 14.8 million Australians have a superannuation account¹¹ with 590,742 self-managed superannuation funds in operation¹²
- ◆ 47.3 million general insurance policies (e.g. home and car insurance) were issued in 2015–16¹³



Corporates and markets

- ◆ 2,171,544 businesses are operating in Australia¹⁴
- ◆ \$1.8 trillion domestic equity market capitalisation at May 2017¹⁵
- ◆ 6.9 million adult Australians own listed investments¹⁶
- ◆ \$2.9 trillion is held in managed funds (which includes \$2.2 trillion held in superannuation)^{17,18}
- ◆ \$7.4 billion was raised through initial public offerings (IPOs) and \$29 billion through secondary raisings in 2016–17¹⁹
- ◆ \$671 billion daily turnover in over-the-counter (OTC) derivatives in 2016–17²⁰

Note: Statistics above reflect latest data – see Endnotes for details.

Our view of 'what good looks like' for the sectors we regulate

The conduct, product and disclosure practices in each sector should promote investor and consumer trust and confidence and market integrity.



Financial advice

Financial advisers:

- ♦ act professionally, treat consumers fairly and prioritise consumers' interests
- ♦ provide accessible, strategic financial advice that is aligned with consumer needs and delivers value for money
- ♦ ensure that consumers are fully compensated when losses result from poor conduct.



Superannuation and managed funds

Funds management and superannuation providers:

- ♦ treat fund members and investors fairly and prioritise their interests
- ♦ develop and sell a range of products and services that are transparent, aligned with fund members' and investors' needs, and deliver value for money
- ♦ strike the right balance between innovation and risk to meet fund objectives
- ♦ ensure that investors are fully compensated when losses result from poor conduct.



Deposit takers, credit and insurance

Banking, credit, insurance and electronic payment providers:

- ♦ act professionally, treat consumers fairly and prioritise consumers' interests
- ♦ develop and sell a range of products and services with features that are aligned with consumers' needs and deliver value for money
- ♦ ensure that consumers are fully compensated when losses result from poor conduct.



Market intermediaries

Market intermediaries:

- ♦ ensure their conduct and behaviour support the integrity of Australia's retail and wholesale markets
- ♦ act professionally and treat investors fairly by managing confidential information and conflicts of interest appropriately
- ♦ have effective risk management and internal supervision
- ♦ ensure that investors are fully compensated when losses result from poor conduct.



Corporations

Public companies:

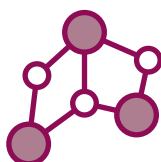
- ♦ treat investors fairly when undertaking fundraising and change of control transactions
- ♦ are accountable to investors by ensuring disclosure is accurate, complete and timely
- ♦ adopt sound corporate governance practices that support market integrity and good investor outcomes.



Financial reporting and audit

Accountants and auditors:

- ♦ deliver professional, high-quality financial reports (that provide useful information for investors and other users) and audits through:
 - experience and expertise
 - effective internal supervision and review
 - robust accountability mechanisms
 - addressing key risks and issues on a timely basis.



Market infrastructure

Australian financial markets are trusted and internationally competitive, and facilitate effective capital raising.

Market infrastructure providers:

- ♦ ensure retail and wholesale markets are fair and efficient, characterised by reliable and effective price discovery and robust and efficient post-trade systems
- ♦ provide a diverse and competitive range of services and products that meet different investor needs
- ♦ strike the right balance between innovation and risk to fair and efficient markets.



Insolvency practitioners

Registered liquidators:

- ♦ act independently and competently
- ♦ ensure cost-effective, timely and appropriate outcomes
- ♦ perform their role in accordance with proper standards of professional conduct.

Long-term challenges and key risks to ASIC's vision

We have identified the long-term challenges to our vision and the key risks that warrant attention in 2017–18.

Long-term challenges

The long-term challenges to ASIC's vision shape our risk outlook and strategy.

Over the next four years, we anticipate the following challenges:

- ♦ 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 enhancing the role of market-based financing.

We have identified the key risks flowing from these challenges that warrant our particular attention in 2017–18.

We have done this by:

- ♦ integrating business intelligence and strategic insights from our regulatory work
- ♦ consulting advisory panels and industry experts.

Key risks 2017–18

The key risks relate to:

- ♦ poor culture and conduct in financial services and credit resulting in poor outcomes for investors and consumers
- ♦ poor culture and conduct in markets undermining market integrity
- ♦ financial vulnerability of consumers at key decision points
- ♦ misalignment of retail product design and distribution with consumer needs
- ♦ digital disruption
- ♦ inadequate risk management of technological change, including cyber threats
- ♦ cross-border businesses, services and transactions in an uncertain environment.

Identifying long-term challenges and key risks underpins ASIC's strategic planning process (as outlined on page 14) and enables us to better plan our actions.

ASIC's Emerging Risk Committee is the key forum for analysing, monitoring and responding to changes in key risks and emerging risks.

On pages 9 to 13, we discuss the environmental factors driving our long-term challenges and key risks.



Challenge 1: Culture and conduct – aligning conduct in a market-based system with investor and consumer trust and confidence

Our challenge is to encourage gatekeeper culture and conduct that supports trust and confidence and market integrity, and take action where we identify misconduct.

Australia's financial system is a key contributor to economic growth and the financial wellbeing of all Australians.

Supporting a strong financial system

Australia's economy grew at an annual rate of 1.7% in the March 2017 quarter, of which financial and insurance services contributed 0.4 percentage points.²¹ In May 2017, 433,500 people were employed in financial and insurance services, representing 3.6% of total employment across the economy.²²

Australia's capital markets continue to facilitate business funding and investment. In the June 2017 quarter, IPOs and secondary raisings on the Australian equity market totalled \$8.6 billion and turnover averaged \$6.4 billion per day.^{23,24}

Consumer confidence is slightly below its long-term average and pessimists outnumber optimists, according to the Westpac–Melbourne Institute Consumer Sentiment Index.

Caution is also being exercised on investments, with fewer Australians nominating real estate and shares as the wisest place for savings, as more Australians focus on repaying debt.²⁵

However, Australian households continue to use debt to drive consumption and investment, particularly for residential property. As at the March 2017 quarter, the household debt to disposable income ratio stood at a record high of 190.4%.²⁶ At this level, a sharp increase in unemployment or interest rates could hamper Australians repaying their debt.

The financial system plays an important role in the lives of all Australians. Therefore, we need to ensure it is resilient, fair and competitive to promote good investor and consumer outcomes.

A healthy financial system builds trust and confidence. The Roy Morgan Research *Image of Professions Survey 2017* of Australians says trust in financial services professionals, with the exception of bank managers, is generally declining.²⁷

Culture and conduct

Corporate culture is the shared values and beliefs of an organisation's staff and management – which is reflected in their conduct and behaviour. A positive culture can drive good conduct and support trust and confidence and market integrity.

The complex nature of culture means it cannot be influenced solely from the top. To improve culture, firms need to embed values such as responsibility, accountability and communication across all levels of staff and management.

However, we continue to see poor culture driving poor conduct. For example, firms' misaligned incentives, represented by conflicted remuneration structures, have negatively affected investor and consumer outcomes.

Good culture should be at the heart of industry practice – not only to improve conduct and outcomes, but also to promote firm reputation and brand loyalty, and to boost long-term business success.

Competitive markets

Competitive markets play an important role in delivering good investor and consumer outcomes in the financial system. Competition is a key contributor to efficient outcomes for price, quality, choice and innovation. Regulators, product issuers, distributors and consumers all play a role in shaping the competitive landscape.

ASIC has concerns where a lack of competition contributes to inappropriate conduct by firms, insufficient choice, limited access and poor-quality financial products, or where behavioural biases inhibit engaged and informed decision making by investors and consumers.



Challenge 2: Building financial capability

Our challenge is to support investor and consumer decision making by enhancing financial capability and inclusion. We will encourage providers to create and sell products and services that meet consumer needs and deliver value for money.

Improving financial inclusion is important in sharing economic gains throughout the community. In Australia, over two million people experience severe or high financial stress and vulnerability.²⁸

People face a number of issues when making financial decisions, which can impede good outcomes. They include:

- ♦ attitudes and behaviours around money
- ♦ level of financial knowledge
- ♦ behavioural biases
- ♦ cognitive decline.

People can be particularly susceptible to poor outcomes when decision contexts are complex, emotional, infrequent and have significant or lasting consequences (e.g. the transition phase around retirement). These issues may be amplified among people with low income.

Decision making

Over 90% of adult Australians access the internet.²⁹ Although a high connectivity rate facilitates financial inclusion,³⁰ research shows different biases are triggered depending on how information is presented.

Biases can result in people making different choices when presented with information in a digital environment than they would when presented with the same information on paper or in person.³¹

We will promote improvements to financial capability while also recognising the behavioural evidence that suggests multiple regulatory tools are needed to deliver good outcomes for Australians.

We will also emphasise the role of financial product and service providers in fostering trust and confidence by:

- ♦ creating a range of products and services with features that meet people's needs that deliver value for money
- ♦ not exploiting people's biases.

Increasing complexity of decision making

The financial sector is changing rapidly. Global financial markets have evolved faster over the past 10 years than at any other time in history.

New technologies, including distributed ledger and social media, will alter people's engagement with markets and product and service providers.

While these add complexity – which may lead to poor outcomes – they also offer opportunities for providers to:

- ♦ improve access to new products
- ♦ enable investments to be customised
- ♦ deliver products more efficiently.

Product design and sales and distribution practices remain a concern to ASIC. For example, culture and remuneration in the life insurance sector have affected consumer outcomes.

Low interest rates can make products offering higher returns attractive (and often with higher risks), while also making risks more difficult to assess. For example, over the two years to June 2017, the market capitalisation of Australia's hybrid securities sector expanded 44% to \$43.3 billion, with turnover almost doubling during this period.³²



Challenge 3: Digital disruption and cyber resilience in financial services and markets

Our challenge is to enable investors and consumers to benefit from innovation while managing the risks from new and evolving technology-based businesses. This includes ensuring they are properly regulated and have appropriate systems and controls.

Digital disruption is when technology enables new business models. While this is not new, consumers' technological demands, coupled with accelerating change, present both risks and opportunities.

Financial technology (fintech) continues to grow and evolve. Australian fintech investment grew strongly to US\$656 million in 2016, from US\$185 million in 2015.³³ Australia ranked fifth out of 20 global markets for fintech adoption, with 37% of the digitally active population using fintech services.³⁴

Regtech – the use of technology to support regulatory activities – is a more recent development which may help entities better identify misconduct or non-compliance. However, it also raises challenges in implementation and governance.

Financial firms and regulators should harness the benefits from new technological developments, while recognising that they may also present risks.

The benefits may include:

- ♦ reduced cost and improved efficiency of product and service delivery
- ♦ more empowered customers who can deal more easily and flexibly with product and service providers.

ASIC's Innovation Hub continues to support start-up businesses in navigating regulation and has assisted 162 entities since launching in March 2015.³⁵ The businesses we have assisted cover digital advice, marketplace lending, crowd-sourced funding, payment and remittance, consumer credit, and other markets, including superannuation, insurance and financial markets.

However, despite the potential benefits, there are also risks from fintech, including:

- ♦ people not understanding what they are buying, as a result of streamlining consumer engagement processes
- ♦ increased market fragmentation and complexity
- ♦ new products and services testing regulatory boundaries
- ♦ cyber threats, as new business models rely on digital delivery.

Technology and cyber resilience

Well-functioning market infrastructure is critical to the integrity and reputation of Australia's financial markets. Technological resilience allows markets to manage incidents effectively and maintain trust and confidence in our financial system.

Cyber threats remain one of the main risks facing financial services, and the economy more broadly.³⁶ Since cyber risk can be amplified by external dependencies, it is a focus for regulators.

In 2016, almost two-thirds (62%) of directors in Australia's top 100 publicly listed companies witnessed an increase in attempted malicious cyber activity, and 80% expect a rise in cyber risk over the next year or so.³⁷

Cyber threats do not just pose risks to business operations, they can also:

- ♦ threaten customers' personal information
- ♦ result in direct client losses
- ♦ damage a firm's reputation
- ♦ compromise market integrity.

Data security and privacy

Over the last 20 years, the amount of data that has been generated, collected and stored has increased significantly. The rapid evolution of how data is collected and stored creates new opportunities and risks.

For example, the increased data flow between consumers and providers of financial products and services enhances firms' opportunities for developing products and services that are better aligned with consumers' needs.

However, to maintain trust and confidence, firms need to ensure their data storage and sharing arrangements are secure and private. Specifically, customers need to be confident that their personal data cannot be accessed inappropriately or used without their permission.



Challenge 4: Globalisation of financial markets, products and services

Our challenge is to support globalisation by fostering cross-border capital flows and managing uncertainty.

In Australia, globalisation has driven the economy since the exchange rate was deregulated in the 1980s.

As an open economy, Australia is one of the top 10 destinations for foreign direct investment.³⁸ International trade is an important contributor to Australia's economic growth, with \$366 billion of exports in the year to June 2017.³⁹

Australian wholesale financial markets play a comparatively large role in global finance. In April 2016, turnover in Australian-dollar denominated over-the-counter (OTC) interest rate derivatives accounted for 4% of global activity, while the Australian economy contributed around 1.6% to the global economy.^{40,41}

Our financial services sector also benefits from open capital markets. For example:

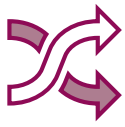
- ♦ Australian companies rely on international funding. In the March 2017 quarter, 45% of the Australian listed equity market was foreign-owned, while 75% of outstanding non-financial corporate debt was issued offshore as at April 2017.^{42,43}
- ♦ Australian financial institutions are heavy users of offshore funding. As at April 2017, 45% of the \$831 billion of outstanding financial corporation debt was issued offshore.⁴⁴
- ♦ Australians also increasingly invest abroad. Investment abroad was \$2.2 trillion in the March 2017 quarter, split almost equally between debt and equity.⁴⁵ The proportion of adult Australians directly holding international shares increased to 8% in 2017, from 5% in 2014.⁴⁶

Australia benefits from the links between world financial markets through increased product and asset class offerings, lower costs from competition and the expanded pool from which businesses can raise funds. In recognition of this, the Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport was signed in 2016, and is scheduled to start in 2018.

However, protectionist sentiment has increased following major elections and referendums in 2016, which may lead to reduced global trade and capital flows.

The global political and economic environment is also operating in a state of uncertainty. Global economic policy uncertainty increased by over 40% between 2015–16 and 2016–17.⁴⁷

In this environment, international relations are crucial. Therefore, we will continue to cooperate with international regulatory agencies to promote market integrity and trust and confidence.



Challenge 5: Structural and demographic change in our financial system enhancing the role of market-based financing

Our challenge is to support business access to the increasing pool of managed funds and help investors and consumers to plan for – and fund – their retirement.

Australia's financial landscape is continually evolving.

Demographic shifts change the way people engage with financial products and services, while structural changes, including increased wealth held in superannuation, should enhance the role of market-based financing.

Demographic change

Changes in our population affect the way people engage with financial markets, including:

- Older Australians: The proportion of Australians aged over 65 is expected to grow from around 15% currently,⁴⁸ to 21% by 2050.⁴⁹
- Female participation: Female participation in the labour market continues to reach new highs, rising from below 50% to almost 60% over the past 30 years.⁵⁰

Demographic changes will shape the products and services people need in the future.

Structural change

We expect Australia's managed funds sector to keep growing, underpinned by compulsory superannuation.

The sector (including superannuation) is the world's fourth largest,⁵¹ and grew 8.8% (\$231.6 billion) over the year to the March 2017 quarter, to reach \$2.9 trillion in total funds under management.⁵²

Impact on market-based financing

Total household wealth held in financial assets is \$4.8 trillion or 42% in the March 2017 quarter (rising from 40% in the March 2012 quarter). The largest part is superannuation at \$2.2 trillion, which represents nearly 20% of total household wealth.⁵³

Self-managed superannuation funds (SMSFs) are an expanding subsector. Assets in SMSFs grew 12.8% to \$674.7 billion over the year to the March 2017 quarter, and represent around 30% of total superannuation assets.⁵⁴

The growing importance of the managed funds sector should support market-based financing, such as peer-to-peer lending and other non-bank financing models.

Although many market-based financing models are in their early stages, recent reforms, such as the *Corporations Amendment (Crowd-sourced Funding) Act 2017*, are expected to support their development.

As traditional lenders, such as banks, are facing increasing capital requirements, it provides opportunities for market-based financing to support businesses and, in turn, boost economic growth.

More broadly, this challenge underpins the key risks to which we will pay particular attention in 2017–18 (as outlined on page 8), since it increases the importance of a strong and resilient financial system for individuals and businesses. Accordingly, we have not aligned this challenge directly to any specific key risk in 2017–18.

Strategy for achieving our vision

We will achieve our vision by using our 'detect, understand and respond' approach, strengthening our capabilities, and addressing long-term challenges and key risks.

Over the next four years, we will:

- ♦ use our 'detect, understand and respond' approach (see page 15)
- ♦ continue to strengthen our capabilities (see pages 16 to 19)
- ♦ undertake specific actions to address our long-term challenges and key risks for 2017–18 (see pages 20 to 37).

ASIC'S VISION

Our vision is to allow markets to fund the economy and, in turn, economic growth. In doing so, we will contribute to the financial wellbeing of all Australians.

We do this by:

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

Our view of 'what good looks like' for each of the sectors we regulate

Attaining 'what good looks like' for each of the sectors we regulate will collectively contribute towards ASIC achieving its vision.

Pages 6 to 7

ASIC's strategic planning process

Long-term challenges and key risks for 2017–18

Pages 8 to 13

Planned activities and resource allocation
based on ASIC's detect, understand and respond approach

Pages 20 to 37

Performance measurement and evaluation

Pages 38 to 40

We are continuing to strengthen our CAPABILITIES to help us achieve our vision



People



Culture and governance



Process and technology



Risk management

Pages 16 to 19

Detect, understand and respond approach

We will achieve our vision by using our 'detect, understand and respond' approach to identify and address misconduct.

DETECT

We adopt a risk-based approach so our actions are targeted and proportionate.

We detect misconduct by:

- ♦ undertaking surveillances that target areas with the greatest risk to investors, consumers and markets, including:
 - poor gatekeeper conduct at the firm and industry level
 - products, services and distribution models and practices that lead to poor investor and consumer outcomes
 - the cyber resilience of licensees, particularly operators of critical market services, including ensuring licensees have sufficient technological resources and risk management arrangements
 - trends in cross-border business, services and transactions that may adversely affect integrity and trust and confidence
- ♦ using information from gatekeeper breach reports, industry whistleblowers, complaints and reports from the public
- ♦ monitoring trends and emerging risks
- ♦ leveraging stakeholder knowledge to better understand the market and industry
- ♦ working with academics, industry, consumer groups and other regulators – local and international – to assess developments and how we respond.

UNDERSTAND

We analyse intelligence to assess risks early and respond quickly.

We gather insights by:

- ♦ using our technology, data management and analytics capabilities
- ♦ enhancing our behavioural insights and research capabilities.

RESPOND

We communicate our actions with stakeholders and keep improving our ways of doing things.

We respond by:

- ♦ taking enforcement and other regulatory action to hold gatekeepers accountable
- ♦ providing guidance and engaging with individual firms and industry to drive behavioural change
- ♦ building financial capability
- ♦ engaging with local and international stakeholders
- ♦ providing policy advice to government and driving the implementation of law reforms
- ♦ influencing international policy and participating in global standard setting
- ♦ facilitating financial innovation and cross-border activities, while managing risks
- ♦ promoting sound risk management systems and controls among our regulated populations.

Strengthening our capabilities

We will achieve our vision by strengthening our capabilities.

Over the next four years, we will continue to strengthen our capabilities by:

- ♦ improving our processes and technology, including via an integrated digital platform
- ♦ developing expertise in data management, analytics and applying new technology-based regulatory techniques and tools
- ♦ implementing a data strategy
- ♦ investing in our people.

'One ASIC', as illustrated below, is about better 'connecting the dots' to achieve regulatory outcomes. It is about working together and sharing data seamlessly using common language, systems and processes.

A core part of 'One ASIC' is our regulatory transformation program (see 'Process and technology' on pages 18 to 19), which will:

- ♦ improve our data collection, management and governance
- ♦ enhance our processes
- ♦ make interacting with us simpler
- ♦ cut red tape and improve compliance.

Implementing recommendations of the 2015 ASIC Capability Review equips us to meet challenges in several areas, including data management, governance, performance reporting and strategic communication.

'One ASIC': Connecting the dots to achieve better regulatory outcomes



People

- ♦ More adaptable, flexible and productive workforce
- ♦ Staff working across teams, supported by common language, systems and processes
- ♦ Activity-based working, for flexibility, collaboration and productivity
- ♦ Workforce planning to enhance staff data analytics and technology capabilities

Process and technology

- ♦ Common language, systems and ways of doing things
- ♦ One approach to collecting, storing, managing and using data for quality decision making
- ♦ One IT platform for internal and external regulatory data
- ♦ Optimising the value of all data through digitisation and new tools
- ♦ Reducing red tape and facilitating compliance by simplifying the way we collect data
- ♦ Exploring options for receiving and accessing data, including through the use of regulatory nodes using distributed ledger

Culture and governance

- ♦ Shared vision, view of 'what good looks like' and strategy
- ♦ 'One ASIC' approach to data
- ♦ Common way of governing processes, technology and data
- ♦ Cross-team projects to meet particular risks
- ♦ One set of performance measures and outcomes

Budget

Our departmental appropriation for 2017–18 is \$340.2 million, falling by around 6.3% to \$318.6 million in 2020–21.

In 2017–18, our budget is \$387.7 million, including revenue from independent sources and capital funding; it will fall by around 11.2% to \$344.4 million in 2020–21.

On 15 June 2017, a law was passed to introduce an industry funding model for ASIC from 1 July 2017. The industry funding model will provide ASIC with greater stability and certainty of funding, and ensure we are adequately resourced to achieve our vision.

After extensive industry consultation, the model for allocating costs has been finalised.

Regulated entities will pay a share of the costs related to the regulation of their subsector. The first invoices, which will be issued in January 2019, will reflect ASIC's actual costs of regulating each subsector for the prior year (that is, 2017–18).

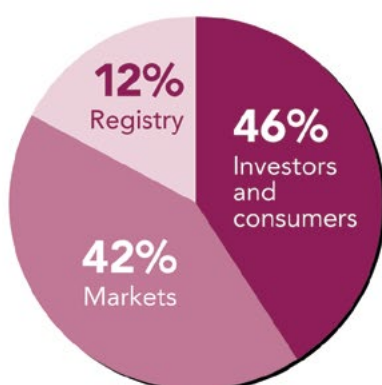
We will engage with regulated entities to help them meet their reporting requirements under the new regime.

ASIC's 2017–18 budget

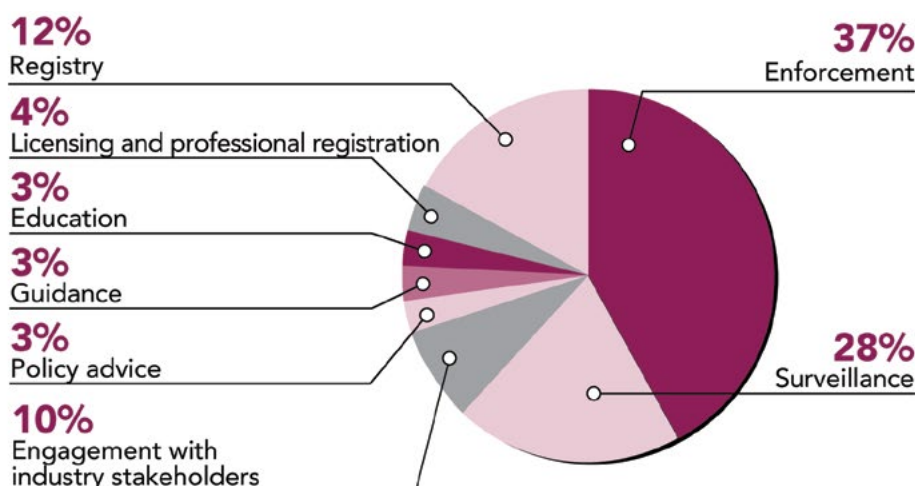
	2016–17 actuals (\$000s)	2017–18 budget (\$000s)	Forward estimate 2018–19 (\$000s)	Forward estimate 2019–20 (\$000s)	Forward estimate 2020–21 (\$000s)
Operating expenditure funded by:	\$341,418	\$345,116	\$334,626	\$327,533	\$323,534
Departmental appropriation	\$336,566	\$340,223	\$329,769	\$322,618	\$318,619
Revenue from independent sources	\$4,852	\$4,893	\$4,857	\$4,915	\$4,915
Capital funding	\$43,356	\$42,599	\$35,468	\$20,740	\$20,856
Total budgeted resources	\$384,774	\$387,715	\$370,094	\$348,273	\$344,390

Source: Portfolio Budget Statements 2017–18

Proportion of 2017–18 operating expenditure for each objective



Proportion of 2017–18 operating expenditure by activity



People

We are strengthening our long-term capabilities by investing in our people – around 1,700 full-time equivalent positions.

We are focusing on enhancing our capabilities in analytics, technology, stakeholder engagement and learning agility (as identified through the workforce planning process we completed in 2015–16).

We are building our long-term capabilities by:

- ♦ recruiting and developing staff from disciplines such as commerce, finance, law, economics, information technology, social science and accounting
- ♦ developing expertise in data management, analytics and applying new technology-based regulatory techniques and tools, and behavioural insights
- ♦ supporting staff development through:
 - structured learning frameworks on regulatory practice, enforcement, accounting and auditing, legal, and data analysis
 - rolling out new resources for all learning frameworks
 - specialist training – for example, on leadership and change management
 - knowledge sharing through ASIC's internal professional networks (e.g. Data Analysts Network)
 - mentoring
 - coaching
 - secondments
- ♦ sharing resources and approaches to building analytical skills with other Australian Government agencies
- ♦ enhancing diversity across ASIC – we established a Diversity Council in 2014 to act as a governing body to drive diversity initiatives
- ♦ promoting an adaptable and flexible working environment.

We will continue to foster cross-team and inter-agency collaboration. For example, we have formed internal working groups to better coordinate the work across ASIC (and, where relevant, with other agencies) on addressing illegal phoenix activity, and issues affecting small business and older Australians. We will publish a summary business plan on each of these areas, along with other summary business plans, by 31 October.

In April 2016, the Australian Government decided to remove ASIC from the *Public Service Act 1999*, which will give us greater ability to attract and retain staff. Our preparation for the new legislation, which starts at the end of 2017–18, includes:

- ♦ drafting the final changes to the ASIC Act
- ♦ developing a new ASIC Code of Conduct
- ♦ updating all relevant internal policies and procedures.

Culture and governance

Our values – accountability, professionalism and teamwork – underpin everything we do.

Our values:

- ♦ provide staff with a shared understanding of what we do and why we do it
- ♦ guide the way we work, make decisions and interact with each other
- ♦ define what our stakeholders and customers can expect when they deal with us.

We will look for ways to streamline processes and better manage the tension between risk and innovation.

We are an independent Australian Government body, set up under the ASIC Act. We operate under the direction of Commissioners appointed by the Governor General, on the nomination of the Treasurer.

We are accountable to the Commonwealth Parliament, and to our responsible Ministers – the Treasurer and the Minister for Revenue and Financial Services.

The Parliamentary Joint Committee on Corporations and Financial Services has oversight of ASIC. We also appear before other parliamentary committees and inquiries as required.

Process and technology

We are committed to transforming our regulatory business by:

- ♦ better collecting, managing, using and governing data
- ♦ improving our processes
- ♦ making interacting with us simpler
- ♦ cutting red tape and improving compliance.

We are continuing to build an integrated digital platform, which includes:

- ♦ a single repository of internal and external regulatory information
- ♦ a consistent approach to managing and recording ASIC activities and processes
- ♦ digitised portals and forms aligned with the Government's digital transformation agenda and our industry funding model.

The platform will give us the flexibility to meet our future needs, and those of stakeholders.

Following the appointment of ASIC's Chief Data Officer in 2016–17, we have developed a data strategy to support us becoming a more data-driven law enforcement agency. The strategy:

- ♦ outlines how we will bring data into ASIC, share it across the organisation and with others, and use the information for decision making
- ♦ is aligned with whole-of-government initiatives, including the Public Data Policy and the Digital Continuity Policy 2020.

We will continue to develop our data management and data analytics capabilities by:

- ♦ maintaining a Data and Information Governance Framework and governance forums, such as the Digital Governance Board and the Data Governance Council
- ♦ setting up a Data Science Lab to facilitate faster data science experiments by using cloud, open source and data analytics infrastructure technologies
- ♦ implementing data exchange frameworks with other agencies
- ♦ using technology to improve how we identify and investigate poor compliance and misconduct
- ♦ further exploring new ways to identify non-compliance, including cognitive learning and predictive data analytics
- ♦ better using information from various external sources to identify trends and potential misconduct (e.g. credit card use, life insurance claims handling, add-on insurance distribution, funds management flows, and dispute resolution)
- ♦ using behavioural insights across our regulatory work.

We will enhance our process and technology over time. This includes strengthening our data management and data analytics capabilities across our regulatory work, exploring ways for improving our systems and cyber resilience, and working with other government agencies.

Operational risk management and audit

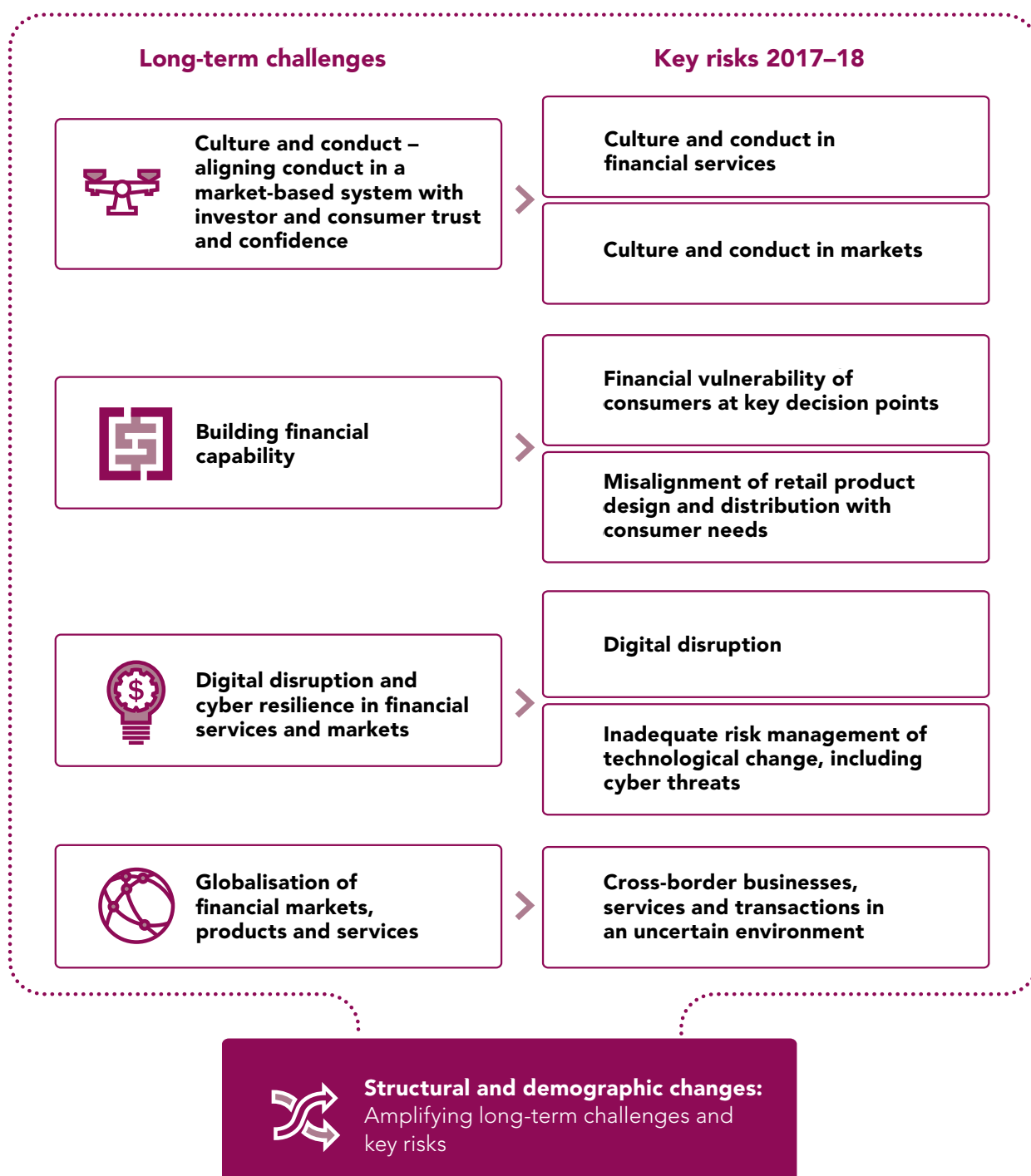
ASIC has embedded operational risk management throughout the organisation in order to achieve our vision. Our enterprise risk management framework is consistent with the Commonwealth Risk Management Policy and ISO 31000, and is overseen by the Operational Risk Committee.

ASIC's Audit Committee (comprising two independent members and a Commissioner) provides independent assurance to the Commission. It reviews the appropriateness of ASIC's financial and performance reporting, system of risk oversight and management, and system of internal control.

The Audit Committee is supported by our Internal Audit team, which completes an annual, risk-based program to assess the effectiveness of business processes and controls.

Actions to address long-term challenges and key risks

We will achieve our vision by addressing long-term challenges and key risks.



Strategy for responding to our long-term challenges and key risks

- ♦ Detect, understand and respond approach
- ♦ Strengthening our capabilities
- ♦ Specific actions to address our long-term challenges and key risks
 - **Action 2017–18 to 2020–21:** identifies the areas to which we will pay particular attention over the longer term
 - **Action 2017–18:** highlights the key areas that we will focus on during 2017–18



Challenge 1: Culture and conduct – aligning conduct in a market-based system with investor and consumer trust and confidence

Action 2017–18 to 2020–21

Over the next four years, we will respond to the long-term challenge of aligning conduct in a market-based system with investor and consumer trust and confidence, by focusing on areas that pose the highest risks to trust and confidence and market integrity, including:

- ♦ **gatekeeper culture driving poor conduct** in the financial advice, credit, insurance, and superannuation and managed fund sectors. Target areas include:
 - remuneration, rewards, incentives and promotions
 - recruitment and training policies
 - whistleblower policies
 - policies and procedures and corporate governance frameworks that support a customer-centric culture (e.g. complaints handling processes, client remediation procedures, and lenders' handling of borrower financial hardship)
- ♦ **gatekeeper competence, professionalism, independence and ethical standards** affecting the quality of financial advice and financial reporting, audit and insolvency practices
- ♦ **gatekeeper governance** affecting market integrity, including the management of conflicts of interest by corporations, market infrastructure providers, market intermediaries, accountants, auditors and insolvency practitioners
- ♦ **gatekeeper disclosure practices** that may mislead investors and consumers or affect their understanding of the risks, fees, costs, features and performance of financial products and services
- ♦ **the accuracy and timeliness of disclosure and reporting of financial information** to investors and the market, including exchange market operators' monitoring and enforcement of listed entities' compliance with their continuous disclosure obligations
- ♦ **market misconduct** across wholesale and retail financial markets
- ♦ **market developments that affect trust and confidence and market integrity** (e.g. emergence of offshore activist firms and advisory groups operating without an Australian financial services (AFS) licence, and market innovations).

We have formed internal working groups to better coordinate the work we will undertake (including in conjunction with other agencies) to address:

- ♦ **illegal phoenix activity** (e.g. focusing on facilitators and directors with a history of involvement in previously failed companies in the construction, security, transport, cleaning and labour hire industries)
- ♦ **issues affecting small business** (e.g. unfair contract terms for small business loans).

We will support Government initiatives, including:

- ♦ **Financial System Inquiry recommendations:** working with Treasury on ASIC's enforcement toolkit, which includes a penalties regime and the power to ban individuals from managing financial firms
- ♦ **competition mandate:** working with Government on ASIC's proposed competition mandate
- ♦ **dispute resolution:**
 - **external dispute resolution (EDR):** overseeing the approved industry-based EDR schemes and contributing policy advice and guidance for the transition of existing EDR schemes to the new consolidated EDR regime proposed under the *Review into Dispute Resolution and Complaints Framework*
 - **internal dispute resolution (IDR):** developing a framework for collecting and publishing IDR data on a recurrent basis.

Key risk 2017–18

Culture and conduct in financial services and credit

Action 2017–18

In 2017–18, we will promote better gatekeeper culture and conduct in financial services and credit through the projects below.

Surveillance

Key projects	Project status	Focus
Financial advice		
Advice compliance at the big five financial advice firms	Continuing project from 2015–16	<ul style="list-style-type: none"> Targeted surveillances of advisers identified from previous reviews as having a high risk of non-compliance Monitoring financial advice firms' programs for remediating consumers who received non-compliant advice between 1 January 2009 and 30 June 2015
Fee-for-no-service	Continuing project from 2015–16	Monitoring firms' remediation programs for fee-for-no-service breaches, as a follow-up to Report 499 <i>Financial advice: Fees for no service</i>
Effectiveness of life insurance remuneration reforms*	New project	Implementing processes for gathering data for a future review of the industry-led reform package, which will start on 1 January 2019, including data on life insurance policies, remuneration, lapse rates and clawback
Credit		
Mortgage broker remuneration	Continuing project from 2015–16	Building on the findings of Report 516 <i>Review of mortgage broker remuneration</i> to improve consumer outcomes
High-risk lending products	Continuing project from 2015–16	Responsible lending practices for payday loans and consumer leases
Interest-only home loans	Continuing project from 2015–16	Responsible lending practices among brokers and lenders with high proportions of interest-only loans
Home loans	Continuing project from 2016–17	Responsible lending and borrower financial hardship practices of home loan providers, including reasonable inquiries into borrowers' financial position and repayment capacity. Anticipated to continue into 2018–19
Loan fraud*	Continuing project from 2016–17	Concerns about loan fraud, particularly in the home loan market
Credit card issuers*	Continuing project from 2016–17	The effect of product features (including their use) and responsible lending processes on borrower repayment experience and outcomes. Public report anticipated to be completed by end 2017
Car finance	Continuing project from 2016–17	Compliance with responsible lending obligations in the car finance industry, following the enforceable undertaking with BMW Finance
Breach reporting practices in large banks*	Continuing project from 2016–17	How the big four banks discharge their breach reporting obligations

Key projects	Project status	Focus
Insurance		
Direct sale of life insurance*	Continuing project from 2016–17	Culture and conduct in life insurance direct sales and distribution. A report on our findings will be released in 2017–18
Sale of add-on insurance products through car dealerships*	Continuing project from 2016–17	Drive changes to insurers' governance for the design and distribution of add-on insurance products through car dealerships, to address systemic poor consumer outcomes in this market
Superannuation and managed funds		
Employers and super*	Continuing project from 2016–17	Practices of superannuation trustees, including provision of advice, fee-for-no-service, disclosure, benefits and inducements, and third party service providers
Surveillance of risk-profiled responsible entities	Annual program	Surveillance of higher-risk responsible entities and superannuation entities – covers culture, incentives and poor compliance arrangements

* Funded as part of the 'Improving Consumer Outcomes in Financial Services' New Policy Proposal (NPP)

Key risk 2017–18

Culture and conduct in markets

Action 2017–18

In 2017–18, we will promote better gatekeeper culture and conduct in markets through the projects below.

Surveillance

Key projects	Project status	Focus
Corporations		
Processes for IPOs	Continuing project from 2016–17	Identifying areas of regulatory concern to ensure intervention mechanisms are in place
Mining and resource company disclosure	Continuing project from 2016–17	Reviewing forward-looking statements by mining and resource companies, as a follow-up to the release of Information Sheet 214 <i>Mining and resources: Forward-looking statements</i>
Fundraising and control transactions	Ongoing	Real-time oversight of public fundraising and control transactions. Achieving changes to transactions where we identify issues
Quality of independent experts' reports	Ongoing	Practices of independent experts, including undue reliance on company analysis and lack of independence
Corporate governance	Ongoing	Identifying issues and promoting better governance practices
Market infrastructure		
Monitoring compliance with continuous disclosure obligations	New project	Effectiveness of listing market operators' monitoring and enforcement of listed companies' compliance with their continuous disclosure obligations
Supervising providers of market infrastructure in Australia's equities, futures and over-the-counter (OTC) markets (such as foreign exchange (FX) and fixed income)	Ongoing	Market infrastructure providers' compliance with their obligations, including conflicts of interest management and financial risk. Includes market operators, clearing and settlement facility providers, trade repositories, credit rating agencies and benchmark administrators
Market intermediaries		
Market intermediaries' handling of confidential information and management of conflicts of interest	Continuing project from 2015–16	Practices for determining capital raising allocations, including onsite inspections of retail and wholesale market intermediaries and review of policies and procedures, specific transactions and communications. This is a follow-up to Report 486 <i>Sell-side research and corporate advisory: Confidential information and conflicts</i>
Supervising market intermediaries' compliance, including investment banks and market participants	Ongoing	Market intermediaries' culture and conduct, including quality of advice, monitoring of market participant capital requirements and client money reconciliations
Supervising Australia's equities, futures and OTC markets	Ongoing	<ul style="list-style-type: none"> ♦ Real-time surveillance and monitoring of trading activities across all financial markets, post-trade analysis, and thematic reviews ♦ Extension to equity derivatives and other targeted non-exchange traded products ♦ Monitoring and managing the FX and bank bill swap rate (BBSW) enforceable undertakings of domestic banks
Financial reporting and audit		
Financial reporting quality	Ongoing	Reviewing financial reports of listed and other public entities, including overly optimistic projections supporting asset values and impairment of non-financial assets
Audit quality	Ongoing	Audit firm inspections, large audit firms' action plans for improving audit quality, and auditors' work to minimise risk of material misstatements in financial reports

Key projects	Project status	Focus
Insolvency practitioners		
Registered liquidators' independence and remuneration	Continuing project from 2016–17	Independence (e.g. referral relationships), competence (e.g. published notices website compliance and annual returns compliance, including insurance) and remuneration (e.g. disclosure and reasonableness)*
High-risk registered liquidators	Continuing project from 2016–17	Misconduct and facilitation of illegal conduct (including illegal phoenix activity) resulting from conflicts of interest, incompetence and improper gain.* Anticipated to continue into 2018–19

* Assisted by ASIC's new powers under the *Insolvency Law Reform Act 2016* (ILR Act), which takes effect from 1 September 2017

Engagement and guidance

Key projects	Project status	Focus
Market infrastructure		
Financial market licensing regime	Continuing project from 2015–16	Finalising guidance on our approach to licensing and regulating financial markets, including on the transition of markets to the new framework
Market infrastructure recovery and resolution arrangements	Continuing project from 2015–16	Implementing the processes of the Council of Financial Regulators (CFR)
Competition in equities clearing and settlement	Continuing project from 2015–16	Finalising, with the CFR and the Australian Competition and Consumer Commission (ACCC), an approach to safe and effective competition, and efficient and effective delivery of settlement services in future
Complex exchange-traded products	New project	Implementing standards for the admission of more complex products by retail exchange market operators
Consolidation of rule books	Ongoing	Progressing the consolidation of market integrity rules to reduce industry burden and, over the long term, developing more streamlined principles that can better cater to future market developments and innovations
Market infrastructure and market intermediaries		
Client money	Continuing project from 2015–16	Implementing a new reporting and reconciliation rules framework
Financial benchmarks regime	Continuing project from 2016–17	Finalising a new methodology and rules framework
Insolvency practitioners		
Insolvency reforms	Continuing project from 2015–16	Implementing the ILR Act, and working with Government on initiatives (e.g. safe harbour, ipso facto, and initiatives to address illegal phoenix activity)



Challenge 2: Building financial capability

Action 2017–18 to 2020–21

Over the next four years, we will focus on supporting investor and consumer decision making through our work on:

- ♦ **financial capability:**
 - leading the National Financial Literacy Strategy
 - engaging with the formal education sector to build capacity in the teaching workforce, such as professional learning modules and webinars that are aligned to the Australian Professional Standards for Teachers
 - collaborating with the formal education sector to develop resources for primary, secondary and tertiary students
 - providing free and impartial information, including materials for specific segments, such as women and people from culturally and linguistically diverse backgrounds
 - supporting Australia's participation in the Organisation for Economic Co-operation and Development's (OECD) Programme for International Student Assessment (PISA) on financial literacy
 - researching the financial wellbeing of Australians
- ♦ **behavioural economics:** integrating decision sciences and insights into our regulatory work, including when developing consumer education messages, tools and resources (e.g. regulated entities' communication of their client remediation processes).

We will emphasise the role of providers in developing and distributing products and services with features that meet consumer needs and provide good value for money. We will do this by focusing on industry and firm behaviours that pose the highest risks to good investor and consumer outcomes, including:

- ♦ inappropriate products being sold, particularly to vulnerable people
- ♦ people being sold products that are not aligned with their risk appetite
- ♦ people buying products they do not adequately understand
- ♦ people being misled about a product's expected outcomes (e.g. fund performance, fees and costs, and insurance policy cover)
- ♦ inappropriate outcomes from products (e.g. from poor insurance claims handling practices).

Specifically, we will focus on:

- ♦ **sales and distribution practices of providers of credit, general insurance and retail structured products**, such as hybrids and retail derivatives
- ♦ **practices of life insurance providers** that may lead to adverse outcomes
- ♦ **practices of superannuation and managed fund trustees and responsible entities**, focusing on disclosure practices relating to fees and performance.

In addition, we will support the implementation of Government initiatives that are aimed to encourage providers to develop and distribute products that meet consumer needs, and mitigate poor outcomes when required, including:

- ♦ the regulation of consumer leases and payday loans
- ♦ product design and distribution obligations
- ♦ regulator product intervention powers.

Older Australians

In light of the ageing population and the growing importance of retirement issues, we have formed an internal working group to better coordinate the work we will undertake to address issues affecting older Australians, including:

- ♦ older Australians' use of financial products and services (e.g. financial advice on transition to retirement)
- ♦ older Australians' ability to make complex financial decisions, including the associated risks
- ♦ product and selling practices that target older Australians (e.g. reverse mortgages).

We will also work with Government on retirement issues and products, including Comprehensive Income Products for Retirement, and contribute to the work of the International Organization of Securities Commissions (IOSCO) on senior investor vulnerability.

Key risk 2017–18

Financial vulnerability of consumers at key decision points

Action 2017–18

In 2017–18, we will focus on the practices of financial product and service providers that may lead to poor outcomes for investors and consumers, including vulnerable consumers.

Surveillance

Key projects	Project status	Focus
Credit		
Mis-selling to vulnerable consumers	Continuing project from 2015–16	Sale of inappropriate products to Indigenous communities (e.g. consumer leases and the sale of goods by instalment)
Reverse mortgages	New project	Reverse mortgages selling practices to older Australians and those approaching retirement
Insurance		
Mis-selling to vulnerable consumers	Continuing project from 2015–16	Inappropriate sale of products to Indigenous communities (e.g. funeral and life insurance products)
Total and permanent disability (TPD) claims*	Continuing project from 2015–16	TPD claims practices (e.g. timeframes and evidence). This is a follow-up to findings in Report 498 <i>Life insurance claims: An industry review</i>
Life insurers with high levels of declined or withdrawn claims	Continuing project from 2016–17	Driving changes to address unfair and unreasonable practices by life insurers with high levels of declined or withdrawn claims. This was identified through our work in Report 498
Investigation practices of insurers	New project	Insurers' surveillance and investigation practices when assessing potentially fraudulent claims, and addressing unfair and unreasonable practices
Financial advice		
Quality of SMSF financial advice (following Future of Financial Advice (FOFA) reforms)*	Continuing project from 2016–17	Testing the quality of advice to consumers who have set up SMSFs (e.g. compliance with FOFA best interests and related obligations), including through shadow shopping. We will release our findings in 2017–18. Surveillances of licensees and advisers may be undertaken, as necessary, after 2017–18
Unlicensed accountants providing financial advice*	Continuing project from 2016–17	Accountants providing unlicensed financial advice
Quality of life insurance advice*	Continuing project from 2016–17	Advisers with a higher likelihood of providing non-compliant advice, as identified through life insurers' exception reports

* Funded as part of the 'Improving Consumer Outcomes in Financial Services' NPP

Funded as part of the 'Future of Financial Advice' NPP

Engagement and guidance

Key projects	Project status	Focus
Financial advice		
Life insurance statement of advice*	Continuing project from 2015–16	<ul style="list-style-type: none"> ♦ Making disclosures in life insurance statements more effective, including fees ♦ Finalising the example Statement of Advice and updating Regulatory Guide 90 <i>Example Statement of Advice: Scaled advice for a new client</i>
Accountants – limited licences*	Continuing project from 2016–17	Improving accountants' understanding of their AFS licence obligations, including development of targeted communication and guidance. This is a follow-up to trends identified in 2016–17
Superannuation and managed funds		
Improving engagement with Indigenous consumers	Continuing project from 2016–17	Working with superannuation and managed funds and other stakeholders to improve their understanding of, and interaction with, Indigenous consumers

* Funded as part of the 'Improving Consumer Outcomes in Financial Services' NPP

In 2017–18, we will launch tools and resources for investors and consumers, and progress projects to support our future work.

Education

Key projects	Project status	Focus
Financial capability		
Research and evaluation to support future work	Continuing project from 2016–17	<ul style="list-style-type: none"> ♦ Reviewing and updating the National Financial Literacy Strategy, including consultation to inform the development of the 2018 National Strategy ♦ Building on findings from the independent evaluation of ASIC's MoneySmart Teaching program to support embedding financial literacy education in schools ♦ Reviewing ASIC's MoneySmart to inform delivery from 2018–19
Tools and guidance for investors and consumers	Ongoing	<ul style="list-style-type: none"> ♦ Promoting financial capability resources aimed at specific segments, including Indigenous Australians, women, older Australians and people from culturally and linguistically diverse backgrounds ♦ Delivering ASIC's MoneySmart Teaching program in collaboration with states and territories ♦ Updating MoneySmart 'Rookie' resources ♦ Delivering new tools and resources, including helping consumers: <ul style="list-style-type: none"> – calculate their insurance needs (e.g. life insurance needs online tool, life insurance data tool) – make informed financial decisions (e.g. TrackMySpend v2.0, first home buyer tips, MySuper comparison tool, MySuper dashboard)

Key risk 2017–18

Misalignment of retail product design and distribution with consumer needs

Action 2017–18

In 2017–18, we will address the risks from misalignment of retail product design and distribution and consumer understanding through the projects below.

Surveillance

Key projects	Project status	Focus
Superannuation and managed funds		
Disclosure of fees and costs*	Continuing project from 2016–17	<ul style="list-style-type: none"> Industry compliance with the revised fee disclosure requirements Calculation of fees and costs in product disclosure statements
Disclosure of performance information*	Continuing project from 2016–17	Industry compliance with fund performance reporting requirements, including individual investor periodic statements, annual fund accounting, and periodic performance reporting to data aggregators such as Morningstar. Potential follow-up work may be undertaken in 2018–19
Exchange-traded funds (ETFs)	Continuing project from 2016–17	<ul style="list-style-type: none"> Issuer conduct, including compliance with periodic statement disclosure requirements, issues around unequal treatment in withdrawals, and accuracy and reliability of ETF and intraday indicative net asset value (NAV)* Market making for ETFs, including issuers' capacity to meet their market making obligations and ensuring that the ETF is available on market at a price that is at or near NAV
Insurance in superannuation	Continuing project from 2016–17	Complaints handling, management of conflicts of interest between trustees and life insurers, and disclosure practices relating to group cover in superannuation
Market intermediaries		
Retail structured products sales and advice practices	Continuing project from 2016–17	Retail structured product issuers, liquidity providers and distribution through white label firms. This covers complex structured products and OTC retail derivatives, such as FX, contracts-for-difference and binary options
Hybrids distribution	New project	Market intermediaries' sales and distribution practices relating to hybrids, including investors' understanding of the risks involved in investing in and trading hybrids

* Funded as part of the 'Improving Consumer Outcomes in Financial Services' NPP



Challenge 3: Digital disruption and cyber resilience in financial services and markets

Action 2017–18 to 2020–21

Over the next four years, we will focus on facilitating innovation to enable investors and consumers to benefit from fintech, while managing the risks to trust and confidence and market integrity from digital disruption.

We will help fintech businesses navigate the regulatory framework through the Innovation Hub. In addition, we will engage with the local and international fintech community, regulators and other bodies to keep abreast of developments.

We will manage the risks from digital disruption by monitoring:

- ♦ **emerging technologies, promotional methods, delivery channels and business models** – for example:
 - how the Australian financial services industry uses emerging technologies to support responsible lending or pricing when launching new insurance models
 - the use of social media, group buying sites, comparison websites and peer-to-peer lending to promote and deliver financial products and services
 - the use of social media and online public forums to disseminate company research
 - products that fall outside the current regulatory settings (and providing policy advice as required)
- ♦ **market misconduct** that is facilitated by or through digital and/or cyber-based mechanisms
- ♦ **impact on financial reporting and audit quality**, including:
 - the impact of digital disruption on the earnings forecasts and asset values of established businesses, including the timeliness of their disclosure to the market
 - the impact of new tools on audits.

We will also support the implementation of key initiatives, including:

- ♦ **Financial System Inquiry initiatives**, such as mandating of the ePayments Code
- ♦ **crowd-sourced funding**: finalising regulatory oversight for the crowd-sourced funding regime for public companies, and providing policy advice on extending the crowd-sourced funding regime to proprietary companies.

On risk management, including cyber resilience, over the next four years we will focus on enhancing our regulated populations' systems and controls by:

- ♦ reviewing their arrangements for managing technology and operational risk, including governance and business continuity practices and cyber preparedness at entity and sector level – particularly those that provide critical services within the Australian financial industry (e.g. market infrastructure providers and market intermediaries)
- ♦ incorporating cyber threats into our real-time monitoring of Australia's financial markets
- ♦ monitoring the management of technological changes by market infrastructure operators, market intermediaries and responsible entities of managed investment schemes
- ♦ engaging with industry and domestic and international regulators and other bodies to share information on emerging cyber threats and mechanisms for mitigating risks.

We will also continue to raise awareness of cyber attacks and the importance of cyber resilience practices across the sectors we regulate.

Key risk 2017–18

Digital disruption

Action 2017–18

In 2017–18, we will facilitate innovation while managing the risks to trust and confidence and market integrity from digital disruption through the projects below.

Engagement and guidance

Key projects	Project status	Focus
Innovation Hub		
Facilitating emerging business models while managing the risks of new products and services to investors and consumers and market integrity	Ongoing	<ul style="list-style-type: none"> Managing fintech start-up business licensing applications, including the regulatory sandbox licensing exemption and individual relief applications Managing risks to investors and consumers (e.g. from poor product design and disclosure, fraud and illiquidity) and market integrity (e.g. due to the impact of innovation on market competition and market structure evolution) Supporting the start of the new crowd-sourced funding legislation for public companies in late September 2017, including finalising guidance for issuers seeking to raise funds under the new provisions Follow-up survey on the marketplace lending sector, including releasing the results to the market Gathering intelligence through our Digital Finance Advisory Committee, which includes members from the fintech community, academia and consumer groups Collaborating with a growing network of international financial regulators, including via new fintech agreements
Financial reporting and audit		
Digital financial reporting	Ongoing	Encouraging companies to voluntarily adopt digital financial reporting, including Australian companies that will be required to lodge digital financial reports in the United States

Surveillance

Key projects	Project status	Focus
Superannuation and managed funds		
Review issues affecting the managed investment scheme sector	New project	Industry approaches to new product delivery models, such as marketplace lending and crowd-sourced funding, as part of the broader sector review
Financial reporting and audit		
Quality of financial reporting	Continuing project from 2016–17	Monitoring entities' reporting of the impact of digital disruption on asset values in financial reports and operating and financial reviews

Key risk 2017–18

Inadequate risk management of technological change, including cyber threats

Action 2017–18

In 2017–18, we will address the risks from inadequate risk management of technological change, including cyber threats, through the projects listed below.

Surveillance

Key projects	Project status	Focus
Market infrastructure		
Assess the systems and controls of ASX Group (ASX)	New project	Changes to ASX's internal system, governance and operations to address issues from its September 2016 equity market outage, including product admission, trading (cash and futures), and post-trade services and data services. Assessment report anticipated in late 2017
Assess market infrastructure operators' technology and operational risk management practices	New project	Technology and operational risk management practices of providers of important market infrastructure services to ensure they sufficiently support the robust and reliable delivery of primary, secondary and post-trade services to the Australian market
Market intermediaries		
Assess market intermediaries' technology risk management practices, including cyber resilience	Ongoing	<ul style="list-style-type: none">♦ Market intermediaries' arrangements for managing technology risk, including governance and business continuity practices, cyber preparedness at entity and sector level, and capacity and capability to use complex technology trading systems and models (e.g. high frequency trading)♦ Develop ASIC's future market surveillance and enforcement approach and capability for:<ul style="list-style-type: none">– misconduct undertaken through or facilitated by digital and/or cyber-based mechanisms– misconduct enabled by the increased automation and interconnectedness of systems on wholesale platforms (i.e. FX, fixed income, credit and commodities)
Superannuation and managed funds		
Review issues affecting the managed investment scheme sector	New project	Industry approaches to technology and cyber risk management, as part of the broader sector review

Engagement and guidance

Key projects	Project status	Focus
Monitoring domestic and international developments	Ongoing	<p>Collaborating with government, regulators, industry and other domestic and international bodies, including:</p> <ul style="list-style-type: none"> ♦ working with CFR agencies on cyber planning ♦ supporting the Australian Cyber Security Centre and the Attorney-General's Department's execution of Australia's Cyber Security Strategy ♦ liaising with the Australian Prudential Regulation Authority on risk management for prudentially regulated entities ♦ contributing to IOSCO initiatives on cyber resilience
Market infrastructure		
Technology standards	Continuing project from 2016–17	Finalising market operator rules and guidance relating to their new systems and controls obligations (e.g. management of systems, technology programs, system recovery, testing and documentation)
ASX Clearing House Electronic Sub-register System (CHES) replacement	New project	<ul style="list-style-type: none"> ♦ ASX's governance arrangements for supporting its replacement decision ♦ Collaborating with the CFR and the ACCC on ASX's compliance with the CFR policy guidance on the replacement system, including user input to system design, adoption of international communications standards and accessibility by unaffiliated market operators and clearing and settlement facilities



Challenge 4: Globalisation of financial markets, products and services

Action 2017–18 to 2020–21

Over the next four years, we will focus on supporting cross-border activities while managing the risks from increased globalisation.

We will support cross-border activities over the longer term by:

- ♦ facilitating the development and application of consistent standards and requirements across borders by:
 - contributing to the work of international regulatory bodies, principally IOSCO
 - supporting key initiatives (e.g. hosting the 2019 IOSCO Conference and supporting initiatives such as the Asia Region Funds Passport and collective investment vehicles)
- ♦ supporting equivalence assessments with counterpart regulators
- ♦ exchanging enforcement information under IOSCO's multilateral memoranda
- ♦ negotiating and implementing bilateral and multilateral agreements and understandings, including fintech-related agreements
- ♦ supporting Department of Foreign Affairs and Trade (DFAT) negotiations of free trade agreements, focusing on the financial services sector and ASIC's regulatory role
- ♦ supporting regulators' capability-building within our region
- ♦ preparing for upcoming and potential changes to international financial market regulatory requirements (e.g. European Securities and Markets Authority's (ESMA) implementation of Markets in Financial Instruments Regulation (MiFIR) and any amendments to Dodd–Frank in the US).

We will also focus on addressing issues flowing from increased globalisation that pose the highest risks to market integrity and trust and confidence, including:

- ♦ the increased risk and incidence of misconduct across borders
- ♦ poor conduct by global businesses, accounting and audit firms
- ♦ fundraising and control transactions on Australia's financial markets involving cross-border transactions that may increase risks to investors
- ♦ the potential loss for investors as a result of foreign issuers participating in local markets
- ♦ the increased operational complexity of businesses that operate in multiple jurisdictions, hold multiple licences and are subject to different requirements and standards
- ♦ the increased interconnectedness of markets, which may heighten the impact of market risk events and, in turn, undermine confidence in the global financial system.

Key risk 2017–18

Cross-border businesses, services and transactions in an uncertain environment

Action 2017–18

In 2017–18, we will address the risks from the growth in cross-border businesses, services and transactions, and increased interconnectedness across jurisdictions, through the projects below.

Engagement

Key projects	Project status	Focus
International		
Foreign financial service providers*	Continuing project from 2016–17	Reviewing the ASIC relief for financial services providers that engage with Australian wholesale clients and are located outside Australia or regulated by certain foreign regulators. Revised policy to be issued by end of September 2018
Financial sector assessment program	New project	Engaging with Treasury on the scope of the International Monetary Fund's 2018 financial sector assessment of Australia, including completing the relevant self-assessment
Influencing priority projects of IOSCO, the Financial Stability Board, and other international organisations, and identifying trends that may emerge in Australia	Ongoing	Priority projects include: financial benchmarks, market conduct and culture, securitisation markets, infrastructure financing, fintech developments, cyber resilience, sustainable market-based finance, market liquidity, central counterparties, asset management, audit quality, sustainable reporting and data analytics
Promoting cooperation with international regulators, with a focus on Asia	Ongoing	Contributing to regional initiatives (e.g. hosting the next Regional Supervisory College in Sydney) and capacity building (e.g. by Indonesia's Otoritas Jasa Keuangan)
Free trade agreements	Ongoing	Assisting DFAT negotiate the Regional Comprehensive Economic Partnership, the Indonesia–Australia Comprehensive Economic Partnership Agreement, and the Australia–Hong Kong Free Trade Agreement
Cooperation agreements	Ongoing	Possible memoranda of understanding with: <ul style="list-style-type: none"> the United Kingdom, Hong Kong and Singapore to cover Australian central counterparties ESMA on European Union financial benchmark reforms
Corporations		
Review of foreign investment transactions	Ongoing	Advising the Foreign Investment Review Board on any ASIC issues relevant to their applications
Superannuation and managed funds		
Facilitating the development and application of consistent standards and requirements across borders*	Ongoing	Supporting the implementation of the Asia Region Funds Passport and collective investment vehicles initiatives

Key projects	Project status	Focus
Market infrastructure and market intermediaries		
Market infrastructure provider substituted compliance from foreign regulators	Ongoing	Enabling Australia's market infrastructure providers (including operators of financial markets, clearing and settlement facilities, trade repositories and benchmark administrators) to obtain and maintain substituted compliance recognition from foreign regulators. This enables providers to use their Australian authorisation to offer services to the international market
Keeping abreast of international market developments	Ongoing	<ul style="list-style-type: none"> ♦ Preparing for commencement of MiFIR and Markets in Financial Instruments Directive II (MiFID II), including supporting industry understanding of their alignment with AFS licence and market integrity rule obligations ♦ Exchanging information to assist cross-border equivalence assessments

* Funded as part of the 'Asia Region Funds Passport and collective investment vehicles initiatives' NPP

Surveillance

Key projects	Project status	Focus
Market intermediaries		
Surveillance and supervision of fixed income, currency and commodities (FICC) markets (e.g. markets in bonds, FX spot and forwards)	New project	Broadening ASIC's surveillance and enforcement approach for FICC markets, including a framework for international engagement on FICC market supervision

Providing efficient registration services

ASIC's registry business – the companies register, business names register and other corporate and professional registers – forms a critical part of Australia's economic infrastructure and is essential to our economy.

In 2017–18, we will continue to provide valuable services to all Australians by:

- ♦ registering companies and business names
- ♦ maintaining company, business name, professional and other registers (e.g. updating and removing registry information, facilitating company annual reviews and business name renewals)
- ♦ deregistering companies and business names
- ♦ providing accessible information on ASIC registers, including through our website, information brokers, our NZAUCConnect search app and data.gov.au, consistent with the Government's open data policy
- ♦ managing inquiries received through telephone, email, web, webchat, social media and mail channels
- ♦ managing registry lodgement channels and services, including portals, inter-agency, web, direct access, social media and mail
- ♦ administering the unclaimed money register
- ♦ managing the collection of fees and charges.

We will continue to improve our efficiency and customer service by:

- ♦ identifying and implementing improvement initiatives (e.g. streamlining business registration services)
- ♦ upgrading our IT mainframe to maintain consistent service delivery
- ♦ refreshing our operating model, including to attain quality recertification under the new ISO standard.

We will implement new registry processes to support the implementation of Government initiatives, including:

- ♦ significant global financial entities: to receive and make publicly available general purpose financial accounts and data exchange with the Australian Taxation Office
- ♦ crowd-sourced funding: to 'flag' companies participating in the new regime
- ♦ Asia Region Funds Passport: for registering, updating, renewing and searching for participating passport fund operators and their customers
- ♦ corporate collective investment vehicles: for registering, updating, renewing and searching for participating companies and their customers.

We will also continue to support other Government initiatives, including:

- ♦ the small business reforms package
- ♦ the digital economy agenda
- ♦ the proposed modernisation of Government business registries, which may include new technologies such as open application programming interface (API).

Measuring and evaluating our performance

We are committed to evaluating our performance.

We have a performance evaluation framework, which sets out how we will measure and evaluate our performance over the period covered by this corporate plan.

Our performance measures are based on:

- ♦ **market outcomes**, which are indicators of perceived and actual behaviours that demonstrate trust and confidence in the financial system
- ♦ **regulator outcomes**, which reflect what we do using our regulatory tools.

We use qualitative and quantitative measures to tell a story that reflects our performance over time.

In the annual performance statement in our annual report, we may also use case studies and tailored initiative impact assessments.

The framework below provides a sample of outcomes – including the evidence of those outcomes – we will use to measure our performance.

In the 2016–17 corporate plan, we highlighted that we were exploring options to refine our approach to measuring stakeholder trust and confidence in industry sectors. We have continued to do this and have identified the following sources that will form part of our performance reporting in future:

- ♦ indicators of perceptions of trust and confidence in sectors we regulate (including survey information from providers such as Roy Morgan Research, the Governance Institute of Australia, Investment Trends and the Australian Financial Attitudes and Behaviour Tracker)
- ♦ findings from ASIC reports and reviews, where these are relevant to investor and consumer trust and confidence and the performance of markets
- ♦ measures of the cleanliness of the Australian listed equity market, by analysing price movements or shifts in trading behaviour before company announcements.

In addition, consistent with a move to industry funding and the setting of desired levels of sector resilience, we may look to set additional sector-specific metric targets for both short-term and long-term outcomes.

We will also continue to monitor available information and refine our approach to external performance reporting. This includes reviewing the performance reporting of equivalent regulators locally and overseas to identify best practice.

Lastly, to allow us to evaluate and, potentially, report on the outcomes of specific projects in a more structured way, we may consider identifying and specifying measures of success when planning individual projects.

Market outcomes for each objective

Objective	Market outcomes	Evidence of outcomes
Investor and consumer trust and confidence	<ul style="list-style-type: none">♦ Investors and consumers have trust and confidence to participate, and when participating, in the financial system♦ Product issuers, credit providers and advisers meet required standards♦ Fair and efficient processes are in place for resolution of disputes♦ Misconduct is dealt with and deterred	<ul style="list-style-type: none">♦ Stakeholder feedback♦ External data (e.g. Australian Financial Attitudes and Behaviour Tracker, Financial Ombudsman Service data and other benchmarking survey data)♦ Published ASIC reports (e.g. enforcement report)♦ Case studies
Fair and efficient markets	<ul style="list-style-type: none">♦ Financial market participants meet required standards♦ Issuers and their officers meet required standards♦ Financial markets are fair, orderly and transparent♦ Misconduct is dealt with and deterred	<ul style="list-style-type: none">♦ Stakeholder feedback♦ External data (e.g. market data)♦ Published ASIC reports (e.g. enforcement report and market integrity report)♦ Measures of the cleanliness of the Australian listed equity market♦ Case studies
Efficient registration services	<ul style="list-style-type: none">♦ Registration is efficient, accurate and cost effective for business♦ Business complies with ongoing registration obligations♦ The public has easy access to information in ASIC registers♦ Misconduct is dealt with and deterred	<ul style="list-style-type: none">♦ ASIC operational data – volume and efficiency of registry activity♦ Performance against ASIC service charter♦ Stakeholder feedback♦ Case studies

Regulator outcomes by activity

Activity	Regulator outcomes	Evidence of outcomes
Surveillance	<ul style="list-style-type: none"> ◆ Failures to comply with conduct obligations are identified and addressed ◆ Improved entity and/or business practice in response to identified areas of improvement ◆ Published reports on surveillance outcomes and industry messages that are delivered to stakeholders articulate standards and expectations ◆ Industry commitment to addressing ASIC's concerns 	<ul style="list-style-type: none"> ◆ ASIC operational data – surveillances undertaken and results achieved ◆ Case studies
Enforcement	<ul style="list-style-type: none"> ◆ Successful enforcement or other regulatory action – including enforceable undertakings and infringement notices 	<ul style="list-style-type: none"> ◆ ASIC operational data – enforcement action undertaken and results achieved ◆ Case studies
Engagement	<ul style="list-style-type: none"> ◆ Open and effective engagement with stakeholders 	<ul style="list-style-type: none"> ◆ Meetings and other engagement with stakeholders ◆ External committees and panels (e.g. External Advisory Panel, Consumer Advisory Panel) ◆ Consultation papers and feedback statements published ◆ Industry reports published ◆ Case studies
Guidance	<ul style="list-style-type: none"> ◆ Published regulatory guidance articulates required standards and expectations ◆ Improved understanding by entities of their regulatory obligations and compliance with those obligations ◆ Improved efficiency and reduced compliance costs ◆ Discretionary powers to grant relief or make a legislative instrument are appropriately exercised where there is a net regulatory benefit 	<ul style="list-style-type: none"> ◆ Regulatory guidance published ◆ Feedback statements published ◆ Legislative instruments made ◆ Relief applications assessed ◆ Compliance cost savings ◆ Case studies
Education	<ul style="list-style-type: none"> ◆ Financial literacy resources and tools produced, delivered and promoted ◆ People are enabled to take action on the basis of ASIC's educational material 	<ul style="list-style-type: none"> ◆ Financial literacy resources and tools produced ◆ ASIC MoneySmart accessibility and usage ◆ External survey data (e.g. ANZ Survey of Adult Financial Literacy) ◆ Case studies
Policy advice	<ul style="list-style-type: none"> ◆ Policy issues and law reform options identified ◆ International policy initiatives progressed 	<ul style="list-style-type: none"> ◆ Meetings with, and advice to, Treasury and relevant Ministers ◆ Case studies

Additional performance reporting

We also use more specific tools to evaluate performance and communicate with stakeholders.

Service charter

Our service charter covers:

- ♦ our most common interactions with stakeholders, such as applications for licences, relief from the law and registration
- ♦ how we respond to reports of alleged misconduct, including timeframes for our response.

We report against our service charter performance in each annual report and, if we have not met service standard levels, explain why this may be the case.

Enforcement report

The enforcement report, published every six months:

- ♦ provides a high-level overview of our enforcement priorities
- ♦ highlights important cases and decisions during the period.

Market integrity report

The market integrity report, published every six months:

- ♦ highlights achievements in market surveillance and market integrity enforcement during the period
- ♦ outlines short-term priorities.

In addition, we publish quarterly data on:

- ♦ market characteristics (including volatility)
- ♦ measures of market concentration
- ♦ measures of market efficiency.

Regulatory reform

We report regularly on our work to minimise the regulatory burden, including the total compliance cost savings achieved.

We also publish a report every six months on examples of situations where ASIC has exercised, or refused to exercise, its exemption and modification powers under the *Corporations Act 2001*.

Regulator performance framework

In January 2017, ASIC published its self-assessment under the Regulator Performance Framework (RPF) for 2015–16. The RPF is a Government initiative and consists of the following six key performance indicators:

- ♦ KPI 1: Regulators do not unnecessarily impede the efficient operation of regulated entities
- ♦ KPI 2: Communication with regulated entities is clear, targeted and effective
- ♦ KPI 3: Actions undertaken by regulators are proportionate to the regulatory risk being managed
- ♦ KPI 4: Compliance and monitoring approaches are streamlined and coordinated
- ♦ KPI 5: Regulators are open and transparent in their dealings with regulated entities
- ♦ KPI 6: Regulators actively contribute to continuous improvement of regulatory frameworks.

ASIC will publish annual self-assessments under the RPF. Before publication, we will consult a panel of stakeholders on our self-assessment against each of these performance indicators.

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