REPORT 543

Response to feedback on REP 523 ASIC's Innovation Hub and our approach to regulatory technology

September 2017

About this report

This report highlights the feedback received on Report 523 *ASIC's Innovation Hub and our approach to regulatory technology* (REP 523) and details our response to the feedback received.

About ASIC regulatory documents

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

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

Regulatory guides: give guidance to regulated entities by:

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

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

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

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

This report does not contain ASIC policy.

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A Overview

1   In [Report 523](#) *ASIC's Innovation Hub and our approach to regulatory technology* (REP 523), we provided an update on the work of the Innovation Hub and sought feedback on ASIC's proposed future approach to regulatory technology ('regtech').

2   In particular, we sought feedback on:

    (a)   our overall approach;

    (b)   establishing a new regtech liaison group;

    (c)   our continued use of technology trials; and

    (d)   hosting a problem-solving event.

3   This report highlights the feedback we received on REP 523 and our responses to this.

4   This report is not meant to be a comprehensive summary of all responses received. We have limited this report to the key issues.

5   For a list of the non-confidential respondents to REP 523, see the appendix. Copies of these submissions will be made available during October 2017 on the ASIC website at www.asic.gov.au/reports under REP 523.

Feedback received

6   ASIC received 19 responses to REP 523—from fintech businesses and technology companies, financial service providers, industry associations, financial advisory firms, and academics. We are grateful to respondents for taking the time to send us their comments and feedback.

7   The responses were generally supportive of ASIC's Innovation Hub and our current and proposed future approach to regtech, as outlined in REP 523.

8   There were some differences of opinion regarding the specifics of our proposed new initiatives—in particular, related to the regtech liaison group and problem-solving event.

ASIC's response

9   The diverse range of feedback we received was very valuable in helping us to consider the interests and needs of various stakeholders in the regtech industry.

10   Some overarching messages or themes that emerged from the responses included:

   (a)   In general, respondents were in favour of us being ambitious in the regtech area. Several respondents elaborated in some detail on how the proposals in REP 523 could be supplemented.

   (b)   There are complex questions of policy surrounding our role in the area of regtech, and we must consider how best to balance our roles as a regulator and as a technology user.

   (c)   We should consider where and how we might be able to improve transparency across the board in our engagement with the regtech industry.

11   In many ways, we consider that the proposals that were outlined in REP 523 represent the starting point of an evolving approach to regtech. As noted in REP 523, we consider that the regtech sector has enormous potential to help organisations build a culture of compliance, identify learning opportunities, and save time and money relating to regulatory matters.

12   By implementing our proposed initiatives, we hope to learn more about how we can promote collaboration and encourage the development of the regtech sector.

B Our overall approach

Key points

This section outlines the feedback received on our overall approach to innovation and regtech, as well as our response to that feedback.

On innovation and fintech in general, some respondents suggested areas where we could improve the level of support we provide to the industry.

Overall, respondents were supportive of ASIC's proposed approach to regtech whilst a number of respondents sought further clarification of our role in the development of industry-wide regtech solutions.

ASIC's current approach to innovation

13   In Section B of REP 523 we provided an update on the work of ASIC's Innovation Hub, with a focus on:

(a)   supporting innovation;

(b)   fintech opportunities;

(c)   regulating new fintech businesses; and

(d)   ASIC's Innovation Hub (including the regulatory sandbox framework).

14   Although feedback was not requested on these specific elements of ASIC's Innovation Hub, some respondents commented more broadly on our approach to innovation, including on the current level of support for fintech and regtech businesses available through the Innovation Hub.

ASIC's regulatory sandbox framework

15   One particular element of ASIC's current approach to innovation that generated some feedback was the regulatory sandbox framework.

16   As noted in REP 523, the regulatory sandbox framework is a key initiative of the Innovation Hub to assist fintech businesses to test innovative business models within a 'lighter touch' regulatory environment.

17   ASIC's current regulatory sandbox framework was launched in December 2016. REP 523 noted that we will commence a review of the framework in 2017–18, and will seek feedback from industry and other stakeholders as part of this process.

18   Currently, the regulatory sandbox 'fintech licensing exemption' only applies to the provision of specified services or products.

19   A small number of respondents to REP 523 were of the view that the fintech licensing exemption should be expanded—though views differed on the type of expansion desired (i.e. to include incumbents as well as new businesses, or to include more products, including regtech products).

ASIC's response

We want to support financial innovation, including by streamlining the licensing process to facilitate innovation where we can, without compromising on other key principles of the regulatory system, including the provision of important protections for consumers and investors.

We are always open to feedback on how our regulatory sandbox framework could be improved. However, we do not intend to make any significant changes to the current framework (including the sandbox licensing exemption) until we have completed a review of our experience with the operation of the sandbox licensing exemption, which will include consultation with industry and other stakeholders. This review will occur later in 2017.

Notably, in the 2017–18 Budget, the Australian Government indicated its intention to introduce an 'enhanced regulatory sandbox' that will allow more businesses to test a wider range of new financial products and services without a licence.

We encourage interested parties to contribute to the public consultation process to be undertaken by the Treasury on the 'enhanced regulatory sandbox', which we understand will commence later in 2017.

ASIC's overall approach to regtech

20   We stated in REP 523 that our approach to regtech would be guided by a set of basic principles that include:

(a)   working towards outcomes in regtech that align with our strategic objectives and approach to innovation;

(b)   undertaking a number of focused initiatives that will deliver outcomes in the near term; and

(c)   learning from industry input, good international case studies and our own experience from engaging with the regtech sector.

21   Discussion of our current and proposed approaches to regtech was followed by a series of questions for stakeholders, including the following general question on our overall approach:

Do you have any comments or suggestions on ASIC's proposed future approach? We would welcome details on any initiatives you would like to suggest.

22   Most stakeholders were positive about our overall current and proposed approaches to regtech. More than one respondent noted that our commitment to engaging with the regtech industry is an important first step towards greater collaboration in this area.

23   Other aspects of our overall approach on which stakeholders commented favourably included:

   (a)   flexible and adaptable nature of the current framework;

   (b)   accessible procurement processes; and

   (c)   international engagement.

24   However, some differences of opinion arose around a broader question on what ASIC's role should be in regtech development.

ASIC's role in regtech development

25   The feedback we received was varied in response to the question of what role ASIC should play in supporting the development of regtech—including in the potential development of industry-wide regtech solutions.

26   The two main points of view were:

   (a)   Some stakeholders focused on ASIC's role as a user of data and regtech products, and advocated for more direct involvement in regtech development and endorsement.

   (b)   Other stakeholders suggested that ASIC should not take a leading role in development, but instead focus on providing support to the industry in various forms, including providing the right environment for development, making more data available and developing relevant operational standards.

27   Views were also varied as to whether our current engagement with industry is appropriately targeted. Some stakeholders advocated for more engagement with established firms and services providers, while others suggested that more attention should be given to small businesses and startup businesses.

ASIC's response

We welcome the comments from stakeholders about the need for increased clarity regarding our role in developing regtech solutions. However, many of the issues raised concerning our role in regtech development do not have simple answers.

As noted in REP 523, we are currently being guided by a set of basic principles that, among other things, reference our broader strategic priorities and approach to innovation. While these principles may seem fairly general, we consider that this flexibility is appropriate as we learn more about regtech through the

specific initiatives we have proposed (i.e. the regtech liaison group, trials and problem-solving event).

In this way, our proposed future approach to regtech (outlined in REP 523) should be viewed as the first steps in our approach to regtech. We anticipate our approach will evolve and adapt based on our experience with stakeholders and developments in regtech.

We will continue to inform stakeholders about our current and proposed approaches to regtech through various communication channels, including speeches, webpage updates and stakeholder engagement (for example, through the proposed regtech liaison group).

C Establishing a new regtech liaison group

> **Key points**
>
> This section outlines the feedback we received about our proposed regtech liaison group, and our response to this feedback.
>
> Respondents were strongly in favour of the establishment of a regtech liaison group. Opinions differed on more specific details regarding the form, structure and purpose of the proposed group.

Nature, form and structure of the regtech liaison group

28   In REP 523, we proposed to establish a new regtech liaison group, comprising industry, technology firms, academics, consultancies, regulators and consumer bodies. We proposed that this group would meet every four months to facilitate networking, discussion of regtech developments and opportunities to collaborate on initiatives that promote positive applications of regulatory technology.

29   Respondents were strongly in favour of this regtech liaison group being established. A number of respondents also noted their interest in participating in this group when it is formed.

30   To help us determine the precise nature, form and structure of the regtech liaison group, we invited feedback on a number of elements, including:

(a)   the nature of this group;

(b)   how regularly the group should meet;

(c)   whether the group should be an invite-only structure, an open invitation or some hybrid model; and

(d)   how big or small the group should be.

The nature of the proposed group

31   Most respondents suggested that the membership of the regtech liaison group should be reasonably constant, with scope for flexibility to invite additional presenters or observers to meetings, as required.

32   A number of respondents also expressed the view that the group's membership should be as diverse as possible, comprising individuals from a range of organisations (including incumbents and startup businesses, technology companies and regtech users, professionals, academics, and regulators).

33   A number of respondents were concerned that more people and organisations are likely to be interested in participating in the regtech liaison group than can feasibly be included. Suggestions to address this issue included:

(a)   forming related sub-groups or working groups with either specific areas of responsibility or tasks to complete, in addition to a core or 'umbrella' regtech liaison group; or

(b)   creating, alongside the main regtech liaison group, a regtech 'network hub' to build and maintain links between different players in this space.

Regularity of regtech liaison group meetings

34   The prevailing view of respondents was that the regtech liaison group should meet either quarterly or every four months. One respondent did also note that the group should have flexibility to meet more often, as required.

Participation in regtech liaison group

35   On whether the group should be invite-only, open invitation or some hybrid model, the majority of respondents supported an invite-only approach, with the understanding that new stakeholders should also be able to attend meetings if their expertise is relevant to topics of discussion.

36   Within the responses that supported an invite-only approach, there were some differences in opinion as to whether ASIC should identify and invite individuals and organisations to participate, or decide based on a more open process involving applications/expressions of interest, or some combination of these two approaches.

37   As noted above, a number of respondents suggested a hybrid approach to invitations to join the group based on the premise that, in addition to the core group, there may be additional sub-groups or events that may allow for broader participation. For example, it may still be appropriate for membership of sub-groups to be on an invite-only basis, but open invitations could be extended to any events the liaison group organises.

Size of regtech liaison group

38   There was general agreement among respondents that the group should consist of between 10 and 15 permanent members.

Additional feedback about form and structure of regtech liaison group

39   Some additional suggestions about the form and structure of the group that were raised by respondents included:

(a) alternating the responsibility for setting the discussion topics for each event or meeting between industry participants and regulators;

(b) rotating members of the group every two years;

(c) forming a parallel regulator regtech liaison group with representatives from all Australian regulatory bodies; and

(d) supporting the establishment of a global regtech liaison group.

> *ASIC's response*
>
> The feedback we received on the nature, form and structure for the proposed regtech liaison group contained a number of helpful suggestions for us to consider.
>
> Broadly, we agree with the majority of respondents about the regularity with which the regtech liaison group should meet and that its agenda should be shaped by dialogue with stakeholders.
>
> However, we intend to give further thought to:
>
> • the process by which we will invite organisations or individuals to join the regtech liaison group;
>
> • the various proposals concerning formation of sub-groups or working groups beneath a core or 'umbrella' regtech liaison group; and
>
> • potentially creating a broader 'network' around regtech in addition to the liaison group.
>
> Our preference is for the regtech liaison group to be open to all interested entities, but that smaller sub-groups would be developed on specific problem subjects.
>
> We intend to undertake further consultation with stakeholders over the coming months with a view to hosting our first regtech liaison group meeting before the end of 2017.
>
> We do not currently have plans to establish parallel regtech liaison groups for domestic regulators or at an international level. We will continue to encourage dialogue on regtech, and will build and strengthen relationships through our existing channels of communication with other Australian regulators and our international counterparts. We are open to other domestic regulators being involved in the regtech liaison group.

Purposes of the regtech liaison group

40 In REP 523, we also asked respondents for their views on:

(a) the proposed purposes of the regtech liaison group; and

(b) what the primary purpose of the group should be (e.g. information sharing, networking, or providing opportunities for collaboration with industry, or with ASIC and other regulators).

41   Most respondents broadly agreed with our proposed purposes for the group: to facilitate networking, discussion of regtech developments and opportunities to collaborate on initiatives that promote positive applications of regulatory technology.

42   However, some respondents considered that, in addition, other purposes or focus areas for the group could include:

(a)   a more practical focus on developing and testing new regtech ideas;

(b)   developing relevant industry standards and/or industry-agreed approaches to governance over regtech;

(c)   seeking feedback from consumer groups and/or improving consumer literacy with regard to technological advances; and

(d)   seeking insights on the future of regulatory policy, with a view to anticipating where regulatory outcomes could be supported by new or adapted technologies.

43   There was no clear consensus or majority view on which should serve as the group's primary purpose. Respondents gave different weights to the various proposed purposes outlined above.

ASIC's response

We plan to proceed with our proposed purpose for the regtech liaison group. We consider that some of the more specific ideas respondents raised for the group's role will form part of its early agenda. We will be open-minded about what the early priorities of the group will be.

We will be guided by our general principles on regtech (see paragraph 20 of this report) to inform the nature of our work with the members of the liaison group.

We anticipate that once the regtech liaison group has been established, the members of the group will have their own views on its priorities and purpose. We consider it important that the group maintain some flexibility in goals and purpose in order to meet new challenges as they arise.

We intend to establish the regtech liaison group in time to hold its first meeting before the end of the 2017.

D Continued use of technology trials

> **Key points**
>
> This section outlines the feedback received on our continued use of technology trials, and our response to this feedback.
>
> Respondents generally supported our continued use of technology trials. A number of respondents also noted the role that technology trials can play in improving dialogue and collaboration between ASIC and the regtech industry.
>
> A number of respondents also suggested ways that we could potentially improve transparency and engage further with the regtech industry through trials.

Information industry wants about ASIC trials

44   We are currently conducting a set of trials of regtech for our regulatory purposes.

45   In REP 523, we proposed to commit to a small number of new trials using regtech in our regulatory supervisory and enforcement work where the areas of focus are consistent with our strategic objectives and business plan priorities.

46   We further indicated that we would look to update the market on these trials—at least, in general terms.

47   In light of this, we requested feedback on the kind of information industry would like to know about our use of, or trials of, regtech applications or approaches.

48   In general, respondents supported ASIC undertaking further technology trials. Some reasons given for this support included:

   (a)   trials are an important means by which information can be shared between ASIC and the regtech industry;

   (b)   start-up businesses need large-scale foundation customers to trial their technology;

   (c)   trials help to identify deficiencies with new technological solutions prior to commercial adoption; and

   (d)   trials focus on real-world results and deliverables.

49   Key themes that emerged from the feedback received indicated that respondents would like us to:

(a)   be more transparent about internal decision-making processes that underpin new technology trials (i.e. release information on our risk appetite, priorities, topics or focus areas, and future plans for trials;

(b)   share more information about the specific applications we are trialling, and our intended uses for the new technology;

(c)   release more detail about the findings from trials we undertake, including successes, gaps and challenges encountered; and

(d)   benchmark how its use of regtech compares with other regulators.

50   Some suggestions also addressed the manner and frequency with which ASIC could communicate information regarding technology trials to the market. One respondent suggested that we could host information sessions to share its learnings. Another suggested that updates on trials could be provided either quarterly or half yearly to the market.

51   In addition, respondents also raised a range of additional considerations for ASIC regarding technology trials. Two major themes that emerged were that:

(a)   we should undertake more trials and/or hold workshops that would allow more providers to engage with us; and

(b)   releasing sandpit data, examples of practical use cases, or problem statements for research and development purposes, would assist the regtech industry.

52   Respondents also noted the need for us to separate our role as a buyer/consumer/user of regtech from our role as a 'market orchestrator' for the financial services sector's use of regtech. Further, it was suggested that we need to be mindful of not creating competitive advantages for firms that develop trial technologies for us.

> *ASIC's response*
>
> As noted in REP 523, we have previously chosen to undertake trials of regtech where the areas of focus are consistent with our strategic objectives and business plan priorities. Our work on trials will also be subject to our available resources.
>
> We welcome the feedback regarding the desirability of increased transparency surrounding the trials we undertake. We will consider the extent to which we can share additional information on proposals for future trials and their outcomes with the market.
>
> We will aim to be open about our plans and use of regtech trials, subject to procurement and in-confidence obligations. We see wider information-sharing value from us being transparent about the fact that we are undertaking trials, and the outcomes of these.

We will encourage stakeholders to be open about their regtech trials as well.

As outlined in Section E, we are also interested in how we can collaborate with the regtech industry on specific problems or use cases.

E Hosting a problem-solving event

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Key points

This section outlines the feedback received on our proposal to host a problem-solving event, and our response to this feedback.

Feedback on this element of our approach to regtech was mixed. Overall, respondents were in favour of us hosting some form of problem-solving event; however, a number of respondents questioned whether the format and focus of the event type outlined in REP 523 (i.e. a 'hackathon') was too narrow and resource-intensive.

In response to this feedback, we have changed the nature of our first problem-solving event to a hybrid problem-sharing and showcase event. The ASIC Regtech Showcase will be held in Sydney on 18 September, 2017.

We remain open-minded about our role in holding future forms of problem-solving events.

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ASIC problem-solving event

53   Based on previous successful problem-solving events hosted by regulators in other jurisdictions, in REP 523, we proposed holding a problem-solving event (otherwise known as a 'hackathon').

54   Specifically, we asked respondents whether they had any comments or suggestions on:

(a)   topics that could be considered at a problem-solving event; and

(b)   other factors that may need to be considered (for example, the design of such events, and what subjects or problems lend themselves to such an event).

55   Overall, respondents were in favour of us hosting some form of problem-solving event.

56   In addition to the topics we identified in REP 523, some additional suggestions for topics this event could cover included:

(a)   cyber security and predictive analysis;

(b)   how a fintech could navigate the licensing process and incident management issues; or

(c)   particular 'pain points' associated with either compliance pressure points in industry, or getting regtech solutions up and running in Australian organisations within a 12-month period.

57   However, quite distinct differences of opinion emerged about the proposed form of the problem-solving event.

58   Some respondents strongly supported the proposed 'hackathon' and considered that this would be a suitable event format because:

(a)   hackathons encourage innovation and can be a useful way of sourcing pilot projects;

(b)   an event of this nature could help to define best practice, or key compliance gaps and emerging trends in the chosen topic area; and

(c)   we could draw on the experience of overseas regulators who have hosted similar events.

59   However, a number of other respondents questioned whether the proposed form of problem-solving event may be too narrow and resource-intensive. Reasons for this included:

(a)   the time constraints associated with a hackathon may mean the problems presented (and the solutions developed) would not adequately reflect real-world requirements;

(b)   hackathons are a good way to identify roadblocks, but may not lead to meaningful or sustained ideas, which may take years to develop;

(c)   hackathons may lack a strong collaboration element or focus; and

(d)   this particular type of event may have less relevance or value for firms that already have solutions in the market.

60   Some further ideas proposed by respondents as to what form the event could take (in addition to, or instead of, a hackathon) were:

(a)   a pitch-style event to open debate about challenges facing the regtech industry;

(b)   a showcase to highlight the regtech industry in Australia; and

(c)   other formats, including roadshows, seminars or workshops.

61   One respondent noted that, regardless of format, we should endeavour to make the problem-solving event accessible—both in-person and via video.

> *ASIC's response*
>
> We welcome the comments received on our problem-solving event proposal. Based on these comments, our first problem solving event will be a 'showcase' event rather than a 'hackathon'. The ASIC Regtech Showcase on 18 September 2017 will have both problem and showcase elements. Further information about ASIC's Regtech Showcase is available on the ASIC website.
>
> We consider that this hybrid approach will address some of the concerns raised by respondents about holding a 'hackathon' and

will allow an opportunity to obtain further feedback on whether we should host similar or different forms of problem-solving events.

We look forward to engaging further with stakeholders on the value of ASIC hosting regtech problem-solving events. We are open-minded about being involved in stakeholder hosted events of a similar kind (for example, as an observer or commentator).

Appendix: List of non-confidential respondents

- Advice Regtech Pty Ltd
- Australian Bankers' Association Inc.
- ANZ
- Compliance Master International
- Financial Services Council
- Financial Simplicity
- Fintech Australia
- LexisNexis Regulatory Compliance
- Lucsan

- Promontory Financial Group Australasia
- PricewaterhouseCoopers Australia
- Simple KYC Pty Ltd
- The RegTech Association
- University of Technology Sydney
- Westpac Group
- Xinja
- Youi Insurance