ASIC

Australian Securities & Investments Commission

Impact of fintech in capital markets

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CHECK AGAINST DELIVERY

Introduction

Good afternoon, everyone.

I would like to thank our hosts, the Sri Lankan Securities and Exchange Commission, for their hospitality in convening the IOSCO Growth and Emerging Markets Committee Annual Conference here in Colombo.

I would also like to thank the IOSCO Growth and Emerging Markets Committee, and in particular its leader, Ranjit Singh, head of the Malaysian Securities Commission, for giving me the opportunity to introduce and participate in this panel discussion on the impact of fintech in capital markets.

With my time as Chairman of the Australian Securities and Investments Commission drawing to a close this year, I have been reflecting on how much the financial landscape has changed over the past nearly nine years.

When I was appointed to ASIC in late 2008, the global regulatory community was still coming to grips with how to respond to the global financial crisis.

It was a challenging time, but also a time of opportunity, as we worked to stabilise and reform so many different parts of the financial system.

I am very proud of what we were able to achieve at ASIC and IOSCO as Chair of both organisations. The regulatory responses that we made have helped stabilise the financial system and made it a more secure avenue for funding growth.

Although it is tempting to reminisce about past achievements, what I want to focus on today is the fact that beyond the standards we developed, and the new frameworks we implemented, I believe we also established something even more enduring.

I am talking about the relationships we have built, both between regulators and with industry, as a result of working through so many difficult issues together.

In addition to understanding each other better, we have learnt that progress is possible when we look past our differences and focus on common outcomes.

Today, as we all move further down the road towards integration of the physical, digital and biological worlds, sometimes called the ‘Fourth Industrial Revolution’, I want to encourage everybody here to think about how that same spirit of international cooperation and collaboration can be harnessed in a new way – to reimagine the way we do things in capital markets.

With this in mind, there are only two points that I want to make before our panel discussion today:

First, I will elaborate a little more on the opportunities as well as the challenges we face in adapting to new technologies in the financial sector.

Second, I want to talk in more detail about two particular areas of technological development that have real potential to disrupt the financial system as we know it:

- digital fiat currencies; and
- initial coin offerings (ICOs).

Adapting to new technologies in the financial sector

While it is common to speak of technological transformation as something on the horizon, in many ways the Fourth Industrial Revolution is already upon us.

In the world today, technology is making things possible that would have seemed ridiculous to us five years ago.

One example of this is the mainstream use of artificial intelligence (AI). In our everyday lives, self-driving cars and digital assistants, like Amazon’s Alexa or Apple’s Siri, are no longer confined to the world of movies and video games.

In the world’s financial markets, we have now reached a point where humans must rely on algorithms – not only for trade execution, but also for analysis and advice – to help us navigate an environment where transactions can be completed in nanoseconds.

Based on progress of trials to date, it appears likely that technologies such as distributed ledger, smart contracts and more sophisticated AI will all mature and start to converge sooner than we expect.

To put these developments in context, what we are being given through the Fourth Industrial Revolution is an opportunity to completely reimagine the way we do business.

We can and should be excited by this. In the world of capital markets – and as regulators we often focus on the potential to do things better and smarter.

Increased automation of even complex transactions will help us to eliminate issues associated with manual errors and inefficiencies, and information asymmetry, and will even potentially reduce costs. What's not to like?

However, we must not overlook the fact that there will also be many challenges associated with this 'revolution'.

From a financial system perspective, I have spoken before about the risk of fragmentation and regulatory arbitrage if we all go down different paths.

Based on my experiences chairing the IOSCO Board, I am confident that our efforts over many years to set standards and promote regulatory coordination and harmonisation leave us well placed to continue to navigate any storms ahead.

However, we have to consider the challenges of rapid technological change from a different perspective.

The World Economic Forum estimates that even in the next five years, millions of jobs will be lost across developed and emerging economies as a result of the Fourth Industrial Revolution, combined with other socio-economic and demographic changes.

In considering how to address these opportunities and challenges, we must not lose sight of the fact that change is a process. I believe this has two major implications for how we live and work today.

Leaders should adopt a forward-looking mindset

In order to bring the organisations we lead and the communities we serve on this journey together, we need to bring a forward-looking mindset to our role and responsibilities, here and now. This will mean different things for different people.

To give one example, where we are looking to establish new systems or processes, we should be bold and consider whether we can try something completely new before settling for an incremental change.

As many of you will know, the Australian Securities Exchange is currently completing a program of development and testing to determine whether to replace the existing clearing system with a new one based on distributed ledger technology. As regulators, I think we need to be supportive of these efforts. And, to the extent appropriate, we should partner with industry to ensure that we keep abreast of how our role may need to change as a result of new developments.

Managing the transition to a digital world

We must also devote energy and effort into managing the transition to a more integrated and digital world.

Today, there are still many people in our societies who are unbanked or underbanked. As we prepare to move through a period of even more dramatic change, we need to work harder to ensure that the improvements we implement benefit all, and not just a few.

In my view, there is much we can learn from innovators in growth and emerging markets about how simple, agile solutions can massively increase financial inclusion and make a real difference in people's lives.

One example that comes to my mind is mobile money platforms, like M-Pesa in Kenya, which have had a huge impact in reaching the unbanked.

I applaud the efforts of my good friend Paul Muthaura and the agency he leads, the Kenya CMA, in showing us how regulators can adapt and address issues around inclusion and market efficiency.

But striving to ensure that innovation is inclusive will not be enough in this transition. We need to help 'digital refugees' to catch up, and make plans to assist those whose work will be disrupted by technology.

We also need to examine ourselves – are we ready for the changes to come?

I am very proud of the capacity-building work that was set into motion during my time on the IOSCO Board, including the regional hubs, member discussion forum and others.

I also look forward to seeing the fruit of more recent initiatives aimed at learning more about how fintech, regtech and data analytics can help us utilise technology in the regulatory space.

New technologies: Digital fiat currencies and ICOs

Turning now to my second and final topic, I am going to talk briefly about some important and interesting developments in the financial system, which I hope will help to illustrate the changes that will come with the Fourth Industrial Revolution.

Specifically, I want to talk about digital fiat currencies and Initial Coin Offerings, also known as 'ICOs'.

Digital fiat currencies

Digital fiat currencies are digital currencies with status as legal tender – that is, it is issued by the central bank.

Here, in the Asia–Pacific region, the Singapore central bank has recently completed the first phase of a project involving the development of a tokenised version of the Singapore dollar on an Ethereum-based blockchain.

Around the world, central banks in other jurisdictions including England, Canada, China and Russia are also experimenting to see if they can bring this concept to life.

The successful development of digital fiat currencies could potentially remove the need for intermediaries between citizens and the central bank.

Imagine a world where we all have digital wallets that allow us to interact directly with each other, and also with the central bank.

I do not pretend to know precisely what direction the various developments in progress will take. But I raise this example because I want us to think about how such a system would interact with our current regulatory frameworks.

Disintermediation and provision of services via networks instead of via entities will require us to significantly rethink how we achieve our regulatory objectives.

Initial coin offerings (ICOs)

Another technology-enabled development that has been getting a great deal of attention recently is ICOs.

For those who aren't familiar with this terminology, an ICO is a fundraising mechanism whereby new crypto-tokens are sold – often in exchange for other digital currencies like bitcoin or ether.

ICOs are an important market development and we think they can make a contribution to the capital-raising options for businesses. But around the world, some differences in the treatment of ICOs have already started to emerge between jurisdictions.

In my view, to promote trust and confidence in ICOs, it is important that they comply with applicable laws. For example, under Australian law, promotions must not be misleading or deceptive.

At ASIC, when we assess whether a coin or token offered through an ICO should be regulated by us, we will consider what rights attach to the coin offered under the ICO – does it have indicators of a share or a debenture, an investment or a derivative?

In addition to this, we look at the business related to the coin offering. We need to understand what the business model is and who it could affect in order to assess whether the activity falls within our remit.

To enable us to do this, we are strongly encouraging businesses conducting or planning to conduct an ICO to come and talk to us through ASIC's Innovation Hub, which helps fintech businesses navigate the regulatory framework.

And finally, I can't emphasise enough the importance of international collaboration and cooperation in this area. With increasing numbers of ICOs occurring, I know that discussions are in progress between a number of regulators to share views and experiences. I want to encourage these efforts – we can achieve so much when we draw on each other's strengths and work through problems together.

Conclusion

As the time approaches for me to say farewell, I want to thank everyone who has been with me on this journey.

I see the GEM as being the engine room for innovation in regulation – and I will never forget what a fantastic support you were for me as IOSCO Chair. And I want to take this special opportunity to applaud Ranjit and his exceptional leadership of GEM.

It has truly been my privilege to work with all of you at IOSCO over the last nearly nine years.

I look forward to today's discussion and the rest of the conference.

Thank you.

