

To Protect or to Foster Innovation: An Inside Look at a Regulator's Initiative to do Both

Speakers: Mark Adams and Ilana Singer

Ilana Singer:

Hello everyone and welcome to our TC Podcast. I'm Ilana Singer, Chair of the Toronto Centre Security Advisory Board. Today we will be discussing an initiative undertaken by the Australian Securities and Investments Commission, also known as ASIC, to help innovative businesses navigate the regulatory framework. FinTech has become one of the biggest buzzwords in the industry over the past several years. There is no doubt that technology has vast potential and can foster creativity and innovation. However, securities regulators and supervisors around the world have been trying to find a delicate balance between encouraging innovation while protecting investors and fostering fair and efficient capital markets.

Ilana Singer:

To explore this topic and what ASIC has been doing in this space, I am thrilled to be joined today by Mark Adams, senior executive leader of Strategic Intelligence at the Australian Securities and Investments Commission. Mark leads ASIC's innovation hub and red tag initiatives. He also leads the team responsible for driving ASIC's data science agenda and leads ASIC's economic and risk analysis unit. Mark has held a range of senior executive positions at ASIC, including being the lead of ASIC's Competition and Equity Markets Project and at the exchange market operators regulatory policy and international teams.

Ilana Singer:

I personally knew Mark when he was the Head of International at ASIC. Prior to joining ASIC, Mark worked in the corporate and superannuation areas of a national law firm. Welcome Mark. We're so happy to have you here today.

Mark Adams:

Great to be here, Ilana. Pleasure to be here.

Ilana Singer:

So, let me start with this first question that is probably on all of our listener's minds. Why is it important for regulators and supervisors to help FinTech start-ups? What advantages do they specifically provide to the financial services industry?

Mark Adams:

Thanks Ilana. To just start, maybe I take a step back to just clarify a little bit about ASIC. So we are the financial market and financial conduct regulator. We're one of the Twin Peaks in Australia. There is a prudential regulator as well. We have a particular interest in good outcomes for consumers and investors and promoting market integrity. We also care about promoting efficiencies in the real economy for innovative businesses and for efficiencies in our own operations, like licensing and supervision. I give that by way of background because that's partly of the heart of why we care about FinTech. What is FinTech? When I think about FinTech, it's sort of making use of big data, computing power, distributed ledger technology in providing financial services. It's important to assist startup and scale up FinTech service providers because often they lack the resources to think about how the regulatory framework may apply to them, where they have these great ideas about providing better outcomes for consumers and for markets.

Mark Adams:

So we've taken that onboard, and we think it's important for us to reach out and provide informal assistance to FinTech startup or scale up businesses to help them navigate the regulatory framework. This also provides us efficiencies and insights into the developments of the sector and we can take that into account as we allocate our resources for authorization, supervisory or educative work. The promise of FinTech is perhaps the same as most of financial services. But with these technologies, we believe business may be able to provide efficiencies in the provision of services, great opportunities for financial inclusion in the provision of services, personalization of products and services in a way that we can't really contemplate as the moment, that could provide much better outcomes for consumers. And there's that difficult area of financial advice or guidance. And technology has the promise of being able to cut through datasets, as well as your own personal information, to provide quality, cost effective guidance and advice to people as they need to make financial decisions. So there's a range of reasons why we think FinTech businesses can supply better outcomes, for consumers and markets, and why we think it's consistent with our regulatory remit to engage with the sector.

Ilana Singer:

Mark, thank you to that. You've described some very tangible benefits that FinTech's are bringing to the table and to the industry as a whole. Now, it is my understanding that ASIC was one of the first, if not the first, to create a place with the regulatory framework, where FinTEch startups could get help. What responses have you seen to ASIC's innovation hub?

Mark Adams:

I know we were one of the first. We weren't the first. I think the Financial Conduct Authority of U.K. would claim to be the first with project innovate. But we were not that far behind in launching our innovation hub in March 2015. The innovation hub is, not about money, it's not about an accelerator or anything like that. It's a virtual hub, basically for engagement with the sector and connecting businesses with ASIC senior staff in order to provide informal assistance. We also have an external advisory group that gives us feedback about our nature of our engagement and we work very closely with our other regulators, including those not in the financial services area. So that's a little bit about the hub. But, in terms of creating a place for them, and what responses, in short, this industry, by and large, wants to work within the regulatory framework. They wish to provide better outcomes from consumers and therefore, they're hungry to engage with us, to better understand the framework and what it means for them. So that's pretty good thing to be able to tap into. So there is normally an appetite for more.

Mark Adams:

Can we be available for more meetings? Can we provide for guidance, more clarity. Can we provide more platforms for networks and collaboration? Would you be open to be part of trials of technologies. Can you provide us sandboxes or concept testing areas, so there's a long list of what they're interested in. But generally, we get a lot of positive feedback about engagement and providing informal pointers and what we've found as well, is that those entities that then seek licensing applications, who have come to us first, by and large, get a more efficient process because of that earlier engagement, so that's one of the other tangible benefits of that engagement.

Ilana Singer:

Mark, it's great to hear that this initiative has been so successful, and as you said, there have been requests for more and more engagement from the FinTech community. Now I'm sure that as much as FinTechs are learning from the innovation hub, the innovation hub is also learning a great deal from the industry. What has ASIC been learning through its engagement with the FinTech community?

Mark Adams:

You're right. We learn as well, in many different ways. So at one angle, building on my answer previously, is that the sector informs us about the different ways they like to communicate, or have us communicate with them. So that is normally multi-channel. So don't think about one mechanism, content on your webpage, or attending a conference. They want that plus more. Going to informal involvement. Podcasts, webinars, all forms of engagement. So that's a really interesting learning thing we've identified through that engagement. But for ASIC and it's business, we've also learnt things because these businesses are trying technologies in business models that can either be at adaptations

or new forms of businesses. And what we think about is, what can it do or bring, by way of benefits for the consumer but equally, what risks may the consumer be facing with these technologies and that's important for us to think about in our regulatory activity. So we can see that these technologies can provide benefits for consumers. Comparing documents, comparing products, comparing services, identifying the right product for them, lower costs through efficiencies, just to name a few.

Mark Adams:

But we also identify that there may be risks to these business models, in terms of consumers may not be aware about how they operate, what risks are they wearing in the peer-to-peer lending arrangement? What risks may they be wearing in a digital financial advice model? Is it contemplating all your circumstances or only some of the circumstances? And in crypto asset offerings, what, again, are retail customers or consumers learning or being asked to consider in these offers? What do they understand by way of these speculative offerings? They're just some examples. The other we're clearly learning is distributed ledger technology, more generally, where businesses are trying to make use of this technology for disintermediation of offerings, for back offers, technologies for their operational things. Or, as a means of clearing and settlement, with the Australian Securities Exchange, who is currently exploring an application of DLT technology in their businesses.

Ilana Singer:

Thank you Mark and you've touched on another topic of a TC Podcast, which was and has been focused on DLT in the space of the Australian Exchange and how, as you mentioned, the clearing and settlement chest infrastructure is being replaced with a new application using DLT. And so, I guess a followup on question to you is, within the innovation hub, do you have technologists who are working within that hub and sir, how do you staff it so that you and ASIC feel that you are well versed enough in the relevant technological space?

Mark Adams:

It's a very good question and there's many aspects to the answer to that. We can't claim to have all the expertise. So, one of the basis of the innovation hub is to engage. So that way we collaborate, cooperate and learn from each other. We also cooperate with our domestic and international regulators on these same topics. So there's a sharing of knowledge that way. We can also engage consultants if we need to, to assist us and they do that often freely with their own time as well. So there's this sharing of knowledge. It is clear ASIC, like many other regulators, having to look at their makeup of staff, and we do have people with strong technological capabilities and people with data science capabilities and we draw upon them in our engagement with the innovative sector.

Mark Adams:

I might just add something, a little bit about how we operate, which may be interesting. I coordinate a small area of three people who are full-time to this, on the innovation hub. Importantly though, we have an internal network within all our business teams, so at any point in time, there's about 25 staff that maybe being touched upon by engagement on this topic and they reside in their business areas. So this small team of three are really agents for that larger group and there's a rotation of that staff and that's why there's also a sharing of knowledge. And at the higher level, there is project board or a task force, which has senior executive leaders on it and sponsored by a commission, John Price. So that brings in buy-in within the organization as well as assistance from each other dealing with the difficult topics, so knowledge transfer. So they're all ways of grappling with that capability question. I would not suggest we've cracked it. We still have to continue to work at it but it is something that we have to look at alternative ways of strengthening our knowledge base to engage with these technologies.

Ilana Singer:

Thank you Mark, that was very helpful information that I'm sure our listeners, especially regulators and supervisors will be very interested in hearing about from a both staffing and expertise perspective with our organization and within their respective organizations. Now I'd like to shift gears a little and look internationally. I understand that the ASIC innovation hub has agreements with 13 different jurisdictions. Why is international collaboration and harmonization with other regulators and supervisors around the world so important in this area?

Mark Adams:

Much of FinTech businesses are cross-border. The applications can easily transfer or they are designed to apply across borders. So I think that's at the heart of it. We are all dealing with financial innovation and its application. So therefore, it's just natural that jurisdictions really need to work together for knowledge sharing and comparing how we're dealing with issues and approached and not duplicating what we might do with problems or things like issues that may arise. So it's right and in this context, we have now entered, I think, 16 FinTech cooperation agreements. But I should say, we're slowing down on that because multi-lateral arrangements have started to build up and I'll touch on that. At the heart of these cooperation agreements is knowledge sharing so, I'm regularly on a call, every quarter on the phone, with some jurisdiction around the world, talking about FinTech in some way or other. So there's knowledge sharing both about what we're seeing, how to we approach it, what issues are arising, what do you see as being a problem for the future or an opportunity for the future. W

Mark Adams:

We also have some of these agreements in place so that we can refer businesses to each other. So we can do that on a streamlined basis and informally, we can meet with delegations from each other's jurisdiction as well. So there's that aspect of it, of which, the FinTech sector is very interested in, in terms of streamlined introductions into other jurisdictions. I think the other component of this, which is in your questions, is harmonization. I'm not so sure I'd be saying, it's going to come shortly. That is a difficult thing to harmonize national laws. But I think what can happen is a better understanding of frameworks, approaches and there can be commonality of principles and approach and that's what can be done across border.

Mark Adams:

At the multi-lateral level, which I was just referring to, there is industry standard settings bodies like the International Organization of Securities Commissions, IOSCO, which has a range of FinTech related committees, looking at all sort of things like distributed ledger technology, artificial intelligence and ethics, as well as RegTech. Then there is a new body called the Global Financial Innovation Network. It's chaired by the FCA in U.K. at the moment. It's just had its annual meeting in London at the beginning of May. There are about 35 jurisdictions who have joined up to that across all sorts of financial sectors. And there are a lot of observers as well who have joined up. It's ambitions is, not only information sharing, so that can be between and securities regulator and an insurance regulator, but also to look at opportunities for cross-border trials of technology, both by FinTech businesses, where they may want to trail payments, applications in relation to consumers, or in RegTech, where is may be that a few regulators which to be part of a cross-border trial in the RegTech area. So there is a range of reasons why I think both domestic and international cooperation and collaboration is really important, given the cross-border nature of FinTech and RegTech activities.

Ilana Singer:

Mark, you mentioned earlier RegTech and I understand that, that's also one of the areas of your remit at ASIC. Do you want to elaborate a little bit more on that?

Mark Adams:

Sure. RegTech, what is it? Essentially, it's the same technologies or applications of it, bring used for a different purpose. Risk management and compliance and it's really important for regulators to try to promote better outcomes through these applications. Again, regulators may have different mandates that determine how they approach this, but we're learning in a little. An example of that is, we're planning to host events. They're not TechSprints, like the Financial Conduct Authority in U.K., but we do plan to make available some datasets and to encourage service providers to deal with the

problem such as, financial advice conduct of business or financial promotions and advertising, in order to demonstrate to the potential of these technologies to assist firms in their compliance activities.

Mark Adams:

And we think this is a good way of producing better outcomes for consumers. So that's a question, I think, for a lot of regulators to engage in trying to promote the RegTech environment. I think the related question is the use of those same technologies for their own purposes, for supervisory tech. And we are also conducting our own trials, in natural language processing, form of text and voice analytics and creating automated threat-harm business models to look over datasets. They're just examples, there's many regulators, far and ahead of us, in some of these things. So these technologies, I think, are really important for producing better risk management and compliance as well as more effective and efficient supervision by regulators.

Ilana Singer:

Thank you Mark. That's very interesting and really demonstrates the importance of information sharing and being able to collaborate with other like-minded jurisdictions. Since the innovation hub was launched, many regulators and supervisors around the world have launched similar initiatives to themselves assist FinTech and as you noted, you were at ASIC, not necessarily the first but certainly one of the first. So to wrap up our discussion, in your view, is it possible for regulators and supervisors to promote financial innovation, while also protecting investors and fostering fair and efficient capital markets?

Mark Adams:

The short answer is yes. It is a balancing act though and it will come down to the mandate of each regulator and the environment within which they work. We, as I said at the beginning, see great opportunities potentially at the applications of these technologies to produce better outcomes for consumer and market integrity. So why wouldn't regulators be engaged in that development and that opportunity. But at the same time, as I mentioned earlier, there could be risks associated with some of these business models and therefore, we need to maintain in that engagement model, independence of the ability to supervisory decision making and perhaps enforcement, if we see it. So it's not necessarily an endorsement of these innovative business models. We have to, on a risk-based approach, determine our supervisory and enforcement response to any issues that emerge. And I think the community in the FinTech sector understand that. That there's this combination of engaging and providing pointers and assistance, whilst not endorsing actually business models and that it's important that regulators maintain their ability to intervene in order to maintain trust and confidence in the financial system, of which the FinTech community really relies upon. So, that's my short answer for sort of saying, it is a balancing act. I think each regulator will find their own footprint, depending on their mandate, but I think it can be done.

Ilana Singer:

Mark, thank you so much for this very interesting discussion. I wish we had more time to discuss. But even in the short time that we have spent together, I'm taking away three things. First, ASIC's innovation hub has been very successful, in part because of its openness to new ideas and to innovation and in addition, the fact that consultation and outreach to stakeholders has been top of mind. Second, with respect to knowledge sharing and information sharing domestically and internationally, that is clearly an important piece of the puzzle. And finally, you mentioned that, for regulators and supervisors, domestically and around the world, it will always be a balancing act, in terms of looking at innovation, trying to both foster innovation and also ensure that investors continue to be protected and there continues to be market integrity. I think that regulators and supervisors and all the other listeners of this podcast will have really benefited from all of that discussion and your answer to all the questions today. So we'd really like to thank you sincerely for taking time out of your busy schedule to provide us with your valuable insights, Mark.

Mark Adams:

Thank you. You're welcome.