

ASIAN MARKET INTEGRATION AND FINANCIAL INNOVATION

Session Three

Australian Initiatives Contributing to Revitalising the Asian Market

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Chairman**



Introduction

- Good afternoon everyone. I'd like to take this opportunity to make some comments about Australia's, and more specifically, ASIC's thinking about how we can contribute to revitalising Asian markets.

- Before I do, I would like make a few comments about ASIC – of which I have been Chairman since May last year.

- ASIC is a corporations, markets and financial services regulator. We have a very broad set of responsibilities:
 - We supervise Australia's financial markets;

 - We regulate the conduct of all financial service and credit providers (through licensing, setting and enforcing standards); and

 - We register companies, regulate key company activities (fundraising, disclosure, reporting and oversight of directors' activities) and license and supervise auditors and liquidators.

- In fact, nearly every Australian is touched by someone that ASIC regulates.

- ASIC has 3 strategic outcomes that we're looking to achieve:
 1. Confident and informed investors and financial consumers
 2. Fair and efficient financial markets; and
 3. Efficient registration and licensing.
- In terms of integrating Asian markets, ASIC's first two strategic outcomes are relevant. We need to harness and improve access to real wealth and investment opportunities in the region. This requires ensuring fair and efficient markets in which investors, and those wanting to raise capital, have confidence.
- So, what role can regulators and policy makers play? Our focus should be on three themes – they are the three **C's: coordination, convergence and caution.**
 - **Coordination** – it's critical to have an overall dialogue between fellow regulators and policy makers at a regional and global level when designing and developing regulatory settings. Through globalisation, markets are becoming more interconnected and this demands a global approach to regulation.
 - **Convergence** – we need to work towards regulatory convergence. If we don't implement settings consistently – cross-border capital flows may be constrained and opportunities for regulatory arbitrage can emerge.

- **Caution** – we need to take a measured approach to regulation to ensure that each sector is not overloaded with too many regulatory initiatives. It's a fine balancing act between strengthening regulation and overburdening a market.
- I will briefly outline what Australia is doing in each of these areas.

Coordination

- We are coordinating with others in the region, on both a bilateral and multilateral basis, in developing regulatory settings in a number of areas. Our aim has been to develop regulatory settings which improve the standards of fairness and efficiency across borders and reduce the cost of doing business across borders.

IOSCO

- We have been very active through IOSCO to develop standards and guidance to address threats to the fairness and integrity of our markets. For example, ASIC has been contributing to IOSCO's work on high frequency trading, dark pools, OTC derivatives and work on structured products. Although these are projects with a global reach – they're projects where we, as a region, have an opportunity to ensure the guidance being developed will work for us.

FSB/BCBS

- Australia is represented in other international bodies such as the Financial Stability Board and the Basel Committee on Banking Supervision. These international organisations are an important means to promote coordination.

Asia – supervision and enforcement/information sharing

- Australia is also taking a collaborative approach in terms of our supervisory efforts. We have entered into information sharing agreements with our Hong Kong and New Zealand counterparts. And we share information for supervision and enforcement purposes with others in the region.

Initiatives to integrate Australian markets into the region

- Our Government has established the Australian Financial Centre Task Force. As part of its work, this Task Force is looking at the best way to integrate Australian markets into the region. One element to this is building greater familiarity between Asian regulators. And this leads me to my next point.

Convergence

- Convergence of regulation will enhance the integration of our markets. It continues to be a challenge not only in Asia but also globally. Ensuring consistency – or harmonisation of approaches – is now a major concern of the FSB and the G20. Different approaches to implementation of standards create costs for business and reduce cross-border activity. Without convergence of regulation, opportunities for regulatory arbitrage can emerge.

- For us in Australia, this is a significant concern in a number of areas such as the regulation of securitisation and hedge funds and – of particular importance in this region – the regulation of OTC derivatives, including the use of central clearing of OTC derivatives.
- We are working through IOSCO and on a bilateral level to encourage consistent approaches to each of these issues.
- **Mutual recognition arrangements** are an effective means of achieving convergence as they facilitate access to each other's markets. Accordingly, we have entered into agreements with New Zealand and Hong Kong on cross-border offerings of securities and managed investments. We have also done some work in building multilateral arrangements, such as the Asian Region Funds Passport.
- The Asian Region Funds Passport is a major initiative to develop a regulatory framework for the cross-border offering of managed funds in East Asia. This will support the development of the East Asian region's funds management industry and promote further integration of Asian markets. It also provides opportunities for enhanced dialogue and cooperation among regulators.
- The ASX is also considering offering foreign unsponsored depositary receipts for trading. They are thinking North American, European and Asian depositary receipts. Similar programs already operate in Europe and Asia.

Caution

- The final C is caution.
- Regulators need to take care not to overload a sector with too many regulatory initiatives which could stifle its recovery. Most regulators are aware of the compliance burden that new initiatives impose but see this as necessary to restoring investor trust and confidence in the market.
- It's a fine balancing act between strengthening regulation and overburdening a market. Extensive dialogue between industry and regulators is critical in finding the right balance as well as flushing out any unintended consequences.
- We need to ensure that the proposed regulatory measures as a whole are appropriate for that sector.
- This can be achieved through soft consultations as well as formal public consultations. We consider that soft consultations are particularly useful in ensuring the scope of the public consultation is appropriate.

Conclusion

- These 3 C's: coordination, convergence and caution, are key themes we should consider in our efforts to promote fair and efficient markets in which investors and issuers have confidence. This will drive the revitalisation of the Asian market and promote Asian market integration.
- Thank you.

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