



12 December 2019

Senate Select Committee on Financial Technology and Regulatory Technology
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

By email to fintech.sen@aph.gov.au

Re: Fintech Inquiry - Senate Fintech Committee

We refer to the Senate Select Committee on Financial Technology and Regulatory Technology's request for submissions regarding the fintech industry in Australia.

ASX welcomes the opportunity to respond to the Committee's request.

ASX and technology

Over the past 25 years, ASX has built a reputation for technological innovation in financial services. Examples include the introduction of electronic trading in equity and derivative markets and the dematerialising of cash equity securities to facilitate more efficient settlement through the introduction of CHES.

ASX continues to make substantial investments in our technology infrastructure including:

- **Australian Liquidity Centre** - Australia's only purpose-built finance data centre at the heart of the financial markets community. This state-of-the-art facility centre enables all its customers to connect with the markets and each other in a secure Tier 3 data centre located in Sydney.
- **ASX Net** - provides businesses, both on and offshore, with low latency network connectivity into the Australian financial markets community.
- **DataSphere** – a data analytics platform that enables the creation of data insights, analytics and new services through ASX and third party data.
- **Distributed ledger technology** – a replacement for CHES, with a new cutting-edge application that reduces risk, complexity and costs using distributed ledger technology. A world first and the largest global implementation of a private, permissioned blockchain infrastructure.

ASX and fintech

ASX is a strong believer in the role of fintech to reduce costs and improve innovation in financial services. We continue to partner with many fintechs who provide services, expertise and technical solutions to ourselves and our customers. We welcome the creativity and agility that comes with working with these businesses and believe they are an important part of the ongoing development of Australia's financial markets.

With a rich history working with fintech, ASX sees an exciting opportunity to help their development and to overcome the barriers to entry that they often encounter. We do this in three ways:

Firstly, ASX is a global leader in facilitating funding for technology companies. Over the past five years, the number of technology companies listed on ASX has more than doubled to over 200 companies, with over \$4 billion in IPO capital raised during this time. Well-known entities such as Xero, Afterpay, Tyro, ZipMoney, Prospa and many others have raised

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growth capital through listing on the ASX. Our success in attracting technology companies from Australia and overseas, which is improving diversity for investors, has enabled us to develop a new index that will track the performance of these companies and also encourage further investment. The S&P/ASX All Technology Index will be launched in February 2020.

Secondly, by making our technology infrastructure available for fintech, we reduce costs and lower barriers to entry. We do this through enabling access to a broad range of financial market participants and Australian corporates, and by providing a suite of technology tools that enable them to develop new services.

Thirdly, ASX has invested directly in several fintech companies, including:

- **Sympli** – a next generation national solution for property e-settlements built in conjunction with users.
- **Yieldbroker** – Australia’s leading electronic trading platform for A\$ and NZ\$ debt capital markets securities.
- **Digital Asset** – a world leader in distributed ledger technology and the creator of DAML (Digital Asset Modelling Language), which is a new programming language that enables software applications to be written and deployed quickly and easily to digitise complex multi-party processes. The new CHES application is being written in DAML and market operators in other jurisdictions are now beginning to use DAML to build applications in their own jurisdictions. DAML is now open sourced and able to operate on multiple ledgers, which further improves its accessibility and usefulness for fintechs.

The distributed ledger technology opportunity for Australia

The emergence of distributed ledger technology (DLT), AI and machine learning, cloud, and quantum computing provide exciting opportunities for the potential of these new technologies to be unleashed through fintech innovation.

For example, since 2015 ASX has been developing a world-leading DLT capability utilising blockchain technology. This infrastructure will support the new DAML application that will replace CHES. It has also been designed to enable anyone, including fintechs, to efficiently create innovative new DAML applications and deploy them into production.

ASX is actively encouraging fintech to do this by providing cost effective DLT tools and applications. We are also providing them with access to a large network of Australian businesses that will be connected to the ASX DLT infrastructure such as banks, brokers and listed companies. Having studied DLT carefully over the past five years, we are convinced of the transformation capabilities of this technology, and believe that building this infrastructure will have a very significant and positive impact on Australia’s financial markets and the fintech community.

DLT also has the ability deliver substantial benefits to the public sector in Australia. DLT solutions – beyond replacing ASX’s CHES post-trade system - are particularly relevant to Government databases and workflows. We invite the Government to target broad adoption of DLT based solutions. For example, DLT could provide cost effective solutions to common synchronisation issues between various Government databases, such as ASIC records, educational credentials, renewable energy certificates, water rights and asset registries (e.g. motor or land).

ASX is well advanced in the use of DLT and we believe this provides an opportunity for Australia to become a global hub of DLT fintech excellence and expertise. As well as the potential to drive substantial employment and innovation in Australia, this also presents an opportunity for fintechs to export their services to global financial markets as adoption of DLT increases.

Considerations for Government

ASX believes the Government can play a very important role in fostering innovation and encouraging fintech growth in Australia.

Rather than specifically deal with matters of regulation and tax incentives, in this letter we provide (below) some general recommendations which would have a materially positive impact on the growth of the fintech industry in Australia.

Barriers to entry

Although fintechs are extremely creative and agile, the barriers to entering new markets can be high. These barriers range from high fixed costs of entry, to challenges building market trust and brands complying with regulatory red tape.

The Government can help reduce the barriers to entry for fintechs by:

- Opening doors to business opportunities for fintechs. For example, consider the Dubai Blockchain Strategy (<https://www.smartdubai.ae/initiatives/blockchain>) which aims to bring together Government departments, private companies and fintechs.
- Encouraging learning and development. ASX is building a world-leading distributed ledger infrastructure which will be open for fintechs to build applications on. To do this fintechs in Australia will need to develop expertise in blockchain and DLT. The Government can encourage universities, schools and other training institutions to provide the necessary training for young developers and technologists. Also, the Government could consider helping fintechs fund the substantial investment in training and education required to leverage new technologies by sponsoring courses and educational institutions.
- Encouraging fintechs to continue to invest in research and development. Current R&D incentives do assist but can be costly and time consuming to apply for and narrow in scope for fintech businesses combining existing technology with their own.

Level playing field

Governments, both State and Commonwealth, should encourage the development of common rules, data standards, systems and platforms that allow fintechs to access Government data and payment rails. Standardisation can facilitate innovation by removing frictions and allowing fintechs to develop applications that can service a range of customers. A relevant current example of this is the development of clear and usable interoperability frameworks in the e-conveyancing space. This has recently been highlighted in a recent review by the ACCC and is a good example of Government action that can stimulate competition and support fintechs.

Government initiatives like open banking, comprehensive credit reporting and the New Payments Platform, have the potential to be transformative for fintech businesses, provided the access costs and requirements of utilising those platforms are reasonable.

There is also a role for Government to encourage competition in services by removing impediments to new entrants in areas where Government-owned enterprises operate, or to promote access arrangements (e.g. interoperability with existing systems) that can reduce establishment costs.

Government leadership

Governments tend to be more risk averse when dealing with technology providers that do not have a proven track record. While that may be appropriate in some circumstances, agencies should be encouraged to look beyond traditional providers when considering new projects.

This could include encouraging fintechs to engage on projects by streamlining RFP processes for Government projects, possibly even waiving the requirements for public tenders where a fintech brings a potential solution to Government for a previously unsolved problem. Government tenders can be cost prohibitive and challenging for fintechs, and are complex and time consuming to respond to, even for relatively simple solutions.

Fintech companies would benefit materially from a simple road map of problems that Government would like to solve over the next, say, five years. Government could target fintechs to solve these problems by providing funding and Government contracts.

Awarding Government contracts to fintechs can be extremely beneficial, allowing the fintech to immediately build expertise and credibility through working with Government. This provides valuable benefits to Government as well, such as knowledge-sharing and often a cost effective solution to identified problems.

We recommend that Government encourage innovation and fintech growth by sponsoring proofs of concept in areas where it needs innovation and technology expertise.

Funding

Growth capital is vital for many fintechs. Government can assist by working with equity financiers (such as the superannuation industry) to encourage funding of fintech businesses. This could take the form of awarding Government contracts to fintechs or funding proofs of concept, thus underwriting a fintech's early stage cashflow and encouraging equity investment from private capital sources.

In conclusion, ASX appreciates the opportunity to provide this response and if invited, we would also be very happy to speak to the Government directly about any of the matters raised in this letter.

Kind Regards

Peter Hiom
Deputy CEO

Cc: