



Australian Leadership Series

Webinar

Australia as a Technology and Fintech Centre

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Report prepared by Dr Jane Thomason

ADC Forum considers that Australia's growth as a technology and financial centre is critical to our national prosperity. We see huge potential, but also risks and issues to be managed and it is essential we draw on best-practice international experience. To support the potential of this sector, ADC Forum recently made a submission and appeared at hearings held by the Senate Select Committee on Australia as a Technology and Financial Centre.

ADC Forum convened a webinar with members of the **ADC Forum Global Faculty** who are internationally recognised experts who contributed to our Senate Committee submission:

Loretta Joseph, Chair, ADC Cyber Security Council and internationally recognised authority in digital asset regulation and blockchain technology;

Greg Medcraft, former Director, Directorate of Financial and Enterprise Affairs, OECD and Non-executive Director, Australian Finance Group (AFG);

Rick McDonell, former Executive Secretary, Financial Action Task Force (FATF) and Executive Director, ACAMS

Dr Jane Thomason, Author, Industry Associate, University College London Centre for Blockchain and frontier technology and social impact thought leader (**Moderator**)

The webinar covered four key issues:

- **The economic opportunity**
- **The need for legal certainty**
- **Focus areas for Australia**
- **Actions required from the Government**

1. Building Australia as a technology and financial centre is a major economic opportunity for Australia and will build economic growth and jobs

Fintech is the engine of the digital decade and digital assets have experienced exponential growth during the pandemic and there is a ripe opportunity for Australia to share in this growth. Institutional adoption of crypto assets and S&P DOW Jones is launching a crypto index in response to this demand. This is a multi-billion \$ opportunity for Australia. But Australia needs to act now, and indeed seems to be falling behind. The Findexable Fintech Index shows that Australia is falling behind with Sydney falling from 10 to 13 place globally and Melbourne from 19 to 32.

Australia is at an inflection point, where it can become a world leader in this field, size doesn't matter. We have learned from global experience that such a regulatory framework attracts investment. Loretta Joseph illustrated this with the example of Bermuda:

"When I first wrote legislation in Bermuda in 2017. You know, since then, we've had 219 FinTech companies set up in Bermuda. It's a country of 60,000 people. So, there's definitely economic and social benefits of doing regulatory frameworks and having proper, proper legal clarity around that."

Rick McDonnell pointed out that there will be a lot of competition, and outlined key elements needed for Australia to achieve this:

- innovative tech people
- an accommodating regulatory system and regulatory certainty
- an underlying level of investment
- a level of trust in what this industry is capable of doing.

Greg Medcraft concluded that Australia is competing in a market, and whether it's a market for skills or it's a market for capital, Australia needs to always be looking at why you're not getting your fair share of that market. He also pointed to the need for examples like the ASX blockchain clearing and settlement system, which will be a massive, scalable project. Loretta Joseph pointed out other Australian advantages, that Australia is a very mature market, with a very tech savvy population, strong regulation and only one regulator. In the end, it requires decisive and firm action. Greg Medcraft emphasised this point:

"I think we are well positioned, we have got the skills, we've got the reputation. We are good at early adoption. And so, I do think we've got all the right ingredients. But we've got to have some successes, we can't keep talking about it. We've actually got to do it, and implementation, I think, is now key".

2. Clear policy provision and legal certainty will drive private investment

"But every time I speak to a digital exchange, virtual asset service provider, that's the number one thing they always say, we will do it, just tell us exactly what you want, sir, that's necessary". (Rick McDonnell)

What Australia lacks is legal clarity. This ecosystem can go anywhere, it's digital, it's global, it's decentralized. Entrepreneurs will build businesses where they have legal clarity. Australia needs to

attract and retain investment, and not lose companies to other jurisdictions which have favorable regulatory frameworks. It's very important for there to be clear regulatory rules, and a clear understanding of how they're going to be assessed.

There are 2 trillion US dollars' worth of transactions going through the crypto sector, while that pales in relation to the traditional financial sector, but you cannot ignore the figure and it is increasing rapidly.

Australia can learn from international experience. For example, FATF worked with a working group of 20 virtual asset service providers in the world, including the top 10 biggest ones, to put in a system of governance that they would be happy to live with, including the implementation of the EFF ATF standards. This demonstrates that it's vital to have industry, working together with the regulators, as this industry is developing. Australia can learn from other jurisdictions, especially Singapore, they're a conservative jurisdiction, and other very highly regarded yet, they're very competitive and enabling so not dissimilar to Australia.

Greg Medcraft shared highlights from the OECD guidance on expectations of industry in relation to responsible blockchain development.

- The first one is clearly compliance and the expectation on the industry to meet the relevant policy, legal and regulatory requirements, including for more decentralized and public blockchains.
- Then governance, accountability and transparency, being open, inclusive about the design of network protocols and incentives. Interoperability, a particularly big issue is interoperability between blockchain and non blockchain networks to support the flow of data, encourage competition and empower individuals to control their data.
- Fourth one digital security, understanding the risks and taking responsibility for business continuity and treatment of data and
- Fifth is an expectation of industry globally is education skills and development, getting stakeholders to understand the benefits and the risks of blockchain.

DeFi is an area where Australia could lead and use the technology of smart contracts to actually achieve regulatory objectives. DeFi is going to happen in the next decade, because it has the attractiveness of being almost frictionless. Australia can develop a legally enabling environment that satisfies the challenges of AML, the challenges of confidentiality, and any other regulatory issues that arise. Australia developed ways to regulate high frequency trading back in the early 2000s and regulation comes back to principles. Technology has made the markets much more efficient, much more transparent and much faster. But the general principles of regulation don't change.

In its VASP sector guidance, the Financial Action Task Force advises countries to focus on the conduct or activity surrounding a particular virtual asset or its underlying technology, and how it poses a money laundering risk, because the rules are fairly stringent, but it always goes back to what level of risk exists in relation to criminal use or money laundering or for that matter, terrorist financing and to apply majors accordingly.

Australia could establish a Digital Law Reform Commission, to look at how we can reposition our laws for the digital age, looking out, five to 10 years on a rolling basis. Australia needs a body that

actually looks forward like the UK Law Reform Commission, which is tasked to make recommendations for the reform of the law to ensure that it is capable of accommodating crypto and other digital assets in a way that allows possibilities of the technology to flourish, and significant markets to develop in digital assets. The other example is the EU which has developed a framework around markets and crypto assets or MICA, which lays out a framework to give more certainty. The EU model is based on how to make the European Union an attractive place for this type of technology and investment destination.

Another possibility is the Commonwealth is one of the biggest institutions in the world with the biggest emerging markets falling under it. We all have common law, if we can have standards that are harmonized across the Commonwealth, it's very easy for countries to roll out very similar frameworks, which gives entrepreneurs clarity.

Australia can go out there and we can target the best of the best. Collaboration, regulatory frameworks and legislation works when you have a collaboration of the policymakers and industry, because policy makers are not technologists, and technologists are not policymakers, the internet told us that when we work together, we can all frame the new responses and the new regulations that are needed to survive in this new world of digital assets.

A body that brings together industry and academics and government to look at how we put our way forward, would be a good step in the right direction.

“One major thing is to recognize the potential value of this industry by government, and in fact, more than by government, and not just the regulators, but by other facets of industry and finance. And that will bring with it, I think, a realization that we don't have a threat here. We have potential vulnerabilities. But a proper system of regulation can take care of that, but economically and financially to enable it, it needs to be seen that a government is supportive of these initiatives of these new innovations”. (Rick McDonell)

3. FOCUS AREAS FOR AUSTRALIA

Australia has a very tech savvy, savvy population, millennials that understand technology and also understand financial risk. We have to be very forward thinking when we're looking at these new products and these new assets are going to come in your secondary trading markets. Australia needs to identify some focus areas and double down. The Panel proposed the following:

- Digital exchanges,
- Enabling asset tokenization, tokenization allows more direct market access; it also enables the fractional ownership of assets and direct capital raising by issuers to investors.
- Supply Chain helps the SME sector, leveraging the trust in responsible supply chains with fast, transparent, immutable traceability from source to destination. Australia is regarded as a safe and reliable jurisdiction for sourcing agricultural products and minerals, which, again, is an opportunity both to what we export, but also exporting that technology.
- DeFi is a significant opportunity to reduce costs and friction, especially mortgage origination, servicing and trading in big areas. Australia takes the lead on enabling a regulatory framework around DEFI.

- ESG Tech. Australia has incredible expertise in infrastructure. If we combine that with both blockchain and Internet of Things, and AI and machine learning, dramatically improving the ability to more timely and accurately monitor risk and provide relevant information to investors, that improves trust and confidence and expands the realm of what can be done in the infrastructure area, especially in reporting on ESG matters.

4. Government role is to create a proactive enabling environment

In relation to the government:

- Developing coordinated policy strategies concerning blockchain which are innovation friendly, and do take into account again, that it's cross border.
- Supporting blockchain research and development and investment for example the digital finance CRC and the funding of some pilots.
- Build skills and capacity around blockchain, in many jurisdictions that regular policymakers really don't understand.
- Create an enabling policy environment, which means consulting widely on regulation and policy and developing institutional capabilities and mechanisms to understand the technology's impact on public policy priorities, like what we've seen with regulatory sandboxes and innovation labs.
- Cooperating internationally on blockchain, which means driving consistency in national approaches to promote fair and open process for global technical and market standards. Having a global approach on this is also important. If we want to be competitive, mutual recognition and relying on one another is critical between jurisdictions.
- Develop the skills and talent pool, because it is in short supply. What are we doing within both our education system generally, but also skills-based training, because people can learn to be a developer without having an engineering degree, to really drive people into digital development, and all of the other areas that are going to need to enable this economy to thrive?
- We don't have all the experts here. So how do we develop some sort of welcoming environment for tech companies and tech entrepreneurs to come here and help us.

The digital economy will be the way we do things. we are inevitably moving towards digitization of almost every aspect of life. In terms of Australia as a tech hub, we've really got to actually win. As I say it should be about implementation, I think that we should agree on enabling the legal structure. But we also then got to pick some winners that actually, you know, that actually say, well, look, we can do it. Here's an example, as we've actually done with many of our unbelievable successful companies in Australia, in the digital space, like Atlassian. We've got to think about winners and show the rest of the world we can do it. Australia needs to build understanding, because there's uncertainty, perhaps fear, and a lack of clarity as to what does this all mean?

“This is not a threat. This is an opportunity. This is an incredible transformation, that if we seize it can really make a huge difference to Australia and its economic future and its place in the region and the world”. (Dr Jane Thomason)