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

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

Dear Senator Bragg,

Submission to the Senate Select Committee on Financial Technology and Regulatory Technology

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia views FinTech and RegTech as playing a significant role in the future of the financial sector, including the accounting profession, as well as the delivery of public services. We therefore welcome the Senate Select Committee's inquiry.

We believe that the development of FinTech and RegTech in Australia will be enhanced through policies and activities that:

- improve access to capital for FinTech and RegTech businesses, especially businesses in the early stage of development
- improve the skills of the workforce through education, training and immigration
- further improve the regulatory sandbox for FinTech businesses
- further clarify how current regulations apply to emerging technologies through law changes and codes of conduct
- support the industry through events and increasing the number of FinTech laboratories
- improve government access to external sources of policy advice on FinTech and RegTech
- lead to the Australian government increasing its involvement in international working groups on FinTech and RegTech.

CPA Australia's detailed perspective and recommendations on these issues are provided in the attachment.

If you have any queries, please do not hesitate to contact Dr Jana Schmitz, Policy Research Analyst at CPA Australia on jana.schmitz@cpaaustralia.com.au or +(03) 9606 5174.

Yours sincerely

Dr Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy

Encl.

Attachment

Within the past few years, the financial technology (FinTech) and regulatory technology (RegTech) ecosystem in Australia has grown and matured. According to EY's Global FinTech Adoption Index 2019, Australia's FinTech adoption rate[1] increased from 13 per cent in 2015 to 58 per cent in 2019 (EY, 2019). Additionally, the Australian Securities and Investments Commission (ASIC) has completed a Natural Language Processing (NLP) trial in resolving regulatory issues and are continuing to conduct further investigation into NLP-related trials. The appointment of Australia's first FinTech minister in 2019 is also a clear indicator that FinTech is considered by the government as an important driver in the evolution of Australia's financial services sector.

Yet there is still room for improvement, as is underscored by Australia lagging the key regional financial centres of Hong Kong and Singapore in global FinTech hub rankings[2].

An innovative technology ecosystem is vital to the growth of FinTech and RegTech. Hence, it is important for the government to not only focus on measures to promote FinTech- and RegTech-specific development, but also to focus on enhancing the overall innovation and technology environment in Australia.

Access to Capital

Ease of funding and access to capital are significant drivers to a sustainable and progressive FinTech ecosystem. However, according to the Organisation for Economic Co-operation and Development (OECD) innovative firms in the past few years are finding it increasingly difficult to access seed and early-stage finance. Barriers to funding include risk aversion of venture capital firms, information asymmetries and insufficient collateral (OECD, 2015). As a result, many OECD countries have chosen to address the financing gap with policy interventions including grants, loans and equity injections such as co-investment schemes.

Yet, despite Australia offering a number of funding options, funding difficulties remain a major challenge for FinTech start-ups in Australia. According to the *Global Startup Ecosystem Report 2019*, among top global ecosystems, Sydney is most hindered in the funding rankings by a gap in early-stage funding (Startup Genome, 2019). The report further stated that ecosystems with strong policy actions to facilitate access to capital tend to have higher scores on early-stage funding.

In terms of seed and early-stage venture capital investment as a percentage of Gross Domestic Product (GDP), Australia lags other OECD countries. That is, Australia's seed and early-stage venture capital investment as a percentage of GDP in 2018 was 0.011 per cent, below other OECD countries such as France (0.041 per cent), Germany (0.031 per cent), Netherlands (0.043 per cent), Spain (0.030 per cent), United Kingdom (0.052 per cent) and the United States (0.217 per cent).

It is also worth noting that Hong Kong and Singapore both possess an abundance of government funding schemes including matching funds for seed and early-stage financing. For example, in Hong Kong, the Innovation and Technology Venture Fund managed by the Innovation and Technology Commission, co-invests with private venture capital funds in local start-ups at a matching ratio of approximately 1 to 2, with a maximum aggregate government investment for each start-up of up to HK$30 million (approximately AU$5.7 million as at mid-February 2020). In Singapore, the government established the Startup SG Equity Scheme in 2017 to co-invest with independent, qualified third party investors into eligible startups. Under this scheme, 'general tech' start-ups are eligible for funding of up to SG$250,000 (approximately AU$270,000 as at mid-February 2020) at a matching ratio of 7 to 3 or up to SG$2 million (approximately AU$2.1 million as at mid-February 2020) at a matching ratio of 1 to 1. 'Deep tech' start-ups are eligible for funding of up to SG$500,000

[1] EY defines a FinTech adopter as someone who has used two or more 'buckets' of FinTech services in the last six months. A 'bucket' consists of a major FinTech service, or two or more related services.

[2] Sydney, Australia is ranked 11th in the *2018 Global FinTech Hub Report* (Singapore and Hong Kong are ranked 9th and 10th respectively, Beijing is ranked 1st) and is ranked 13th in the *2018 IFZ Global FinTech Rankings* (Singapore and Hong Kong are ranked 1st and 10th respectively).

(approximately AU$540,000 as at mid-February 2020) at a matching ratio of 7 to 3 or up to SG$4 million (approximately AU$4.3 million as at mid-February 2020) at a matching ratio of 1 to 1.

In contrast, Australia's largest matching fund, the Accelerating Commercialisation Grant offers up to AU$1 million of matched funding for Australian entrepreneurs, researcher, inventors, start-ups and small and medium enterprises.

To address the funding gap and to catch up with OECD peers and global financial centres, policy intervention may be justified. Australia's innovative technology ecosystem may also benefit from stronger participation from the government and the investment community to facilitate the creation of a robust venture investment market.

Recommendation 1:

CPA Australia recommends the government explore the possibility of expanding the scope and size of government co-investment strategies such as matching fund for seed-financing and early stage ventures to address the early-stage funding gap and catch up with OECD peers in seed and early-stage venture capital investment as a percentage of GDP.

Skills – Immigration

Immigration is an important factor to facilitate the growth of FinTech and RegTech. Australia has significant potential to attract the skills required to grow our FinTech and RegTech sectors, with a 2019 OECD report ranking Australia first among OECD nations on attractiveness for highly qualified potential immigrants (OECD, 2019).

CPA Australia appreciates the announcement of the Global Talent Independent Program last year to specifically target global talent in seven sectors including FinTech. However, the expected minimum annual salary threshold of AU$148,700 may be too high for potential employers and applicants as it makes it difficult to attract emerging junior- to mid-level talent into Australia, unless they are paid well over their current market value. For reference, according to the Australian Government Job Outlook, the median annual salary for full-time, non-managerial computer network professionals is AU$105,092, while the median salary for Information and Communications Technology (ICT) business and systems analysts is AU$118,248.

It is also worth noting that the United Kingdom's new Global Talent Visa scheme, which comes into effect on 20 February 2020 does not require applicants to receive a minimum salary to be eligible for consideration (UK Research and Innovation, 2020). Further, we note that many technology start-ups may offer an equity-based payment / compensation to their employees, and hence a lower annual salary.

Recommendation 2:

CPA Australia suggests the government could consider reducing or removing the minimum annual salary threshold for its Global Talent Independent Program.

Skills – Education and Training

Aside from an inclusive immigration policy, enhancing domestic FinTech expertise is also essential to foster innovation and entrepreneurship. One way is raising FinTech talent via formal education and training.

In academic and professional research reports, concerns have been raised about the workforce in several economies being impacted by unprecedented levels of advanced automation (Bessen and Kossuth, 2019; Bughin et al., 2018; Harris et al., 2019; Moffitt et al., 2018). Australia is no exception and, therefore, must take action to adapt to this reality. While there has been much focus on job loss due to emerging technologies, Australia needs to shift the focus to upskilling our workforce to capture the opportunities and ameliorate the impacts of technology on workers and business.

Some professions will be more affected by the changing environment than others. In the media, the accounting profession has served as a prime example of a "disrupted workforce" that is said to become obsolete. Despite widespread belief that emerging technologies represent major challenges for accountants, there is an almost equally widespread belief that emerging technologies offer solutions to many of the profession's problems, and, in fact, provide opportunities for significant growth (Dai and Vasarhelyi, 2017). The reality is that emerging technologies are transforming what accounting professionals do — and what they need to know. We believe that future accounting professionals must be taught the skills necessary to work side-by-side with emerging technologies in order to harness the potential benefits of new technology.[3]

Educating and training the (future) workforce does not start at the professional level but should be promoted prior to graduation from school or university. Thus, we believe that the education systems will need to evolve to better equip Australians for the jobs of the future. This becomes particularly important as the ever-evolving technological advancement is likely to require us to transition to a "life-long learning model".

While there has been an increase in the number of FinTech courses and certifications in recent years - such as RMIT's online short courses on Blockchain Technology and Artificial Intelligence, and the University of Melbourne's Foundations of FinTech undergraduate course - formal FinTech degree programs remain limited. Currently, only Swinburne University offers a master's degree in Financial Technologies, while Macquarie University offers a Master of Banking and Finance with a specialisation in FinTech. In comparison, there are six publicly-funded universities (out of a total of eight) in Hong Kong currently offering degrees in FinTech at both the undergraduate and postgraduate levels.[4]

It should be noted that Australia possesses a number of world-class universities that are well-positioned to offer cross-disciplinary FinTech degree programs encompassing both finance and technology subjects. According to the latest edition of the QS World University Rankings, six Australian universities – The University of New South Wales, The University of Melbourne, the University of Sydney, Monash University, the Australian National University and the University of Queensland – are ranked in the top 50 in the world in accounting and finance. Of the six, three – The University of New South Wales, The University of Melbourne and Monash University – are ranked in the top 50 in the world in engineering and technology, while the other three – the University of Sydney, the Australian National University and the University of Queensland – are ranked in the top 100 (Quacquarelli Symonds, 2019).

The strong academic standing in finance and technology amongst Australia's tertiary institutions means that there are potential opportunities for universities to offer world-leading FinTech degree programs to nurture and build a critical mass of FinTech talent.

Recommendation 3:

CPA Australia suggests that Australian universities should be encouraged to offer cross-disciplinary FinTech degree programs.

On another front, the Hong Kong Monetary Authority launched a FinTech Career Accelerator Scheme in 2016 offering four internship programs to nurture local talent to meet the growing needs of FinTech in Hong Kong. Targeting students from participating universities, participants embark on a full-time, semester-based internship working on FinTech projects at banks or Stored Value Facility operators. Australia could benefit from similar measures to provide relevant industry experience to promising FinTech talent.

3 Please see CPA Australia's *Technology and the Future of the Profession* research report at: https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/professional-resources/business-management/technology-and-the-future-research-report.pdf?la=en&rev=02076b9b680241cb83a811ac11bafe3c

4 The six universities are: The University of Hong Kong, Chinese University of Hong Kong, University of Science and Technology, City University of Hong Kong, Hong Kong Polytechnic University, and Open University of Hong Kong.

Recommendation 4:

CPA Australia recommends that the government consider funding and organising FinTech internship programs in collaboration with ASIC, banks and FinTech companies for Australian students.

In addition to enhancing the technology skills of the workforce, policymakers should also consider how they can assist building the business acumen of the leaders of FinTech and RegTech businesses, especially start-ups. Improvements in business skills should lead to better business outcomes, and hence greater numbers of successful Australian FinTech and RegTech businesses.

While training and education in entrepreneurship and similar areas can assist, such courses can in no way replace start-ups accessing professional advisers and mentors to assist them with their business decision making, especially early in their business, or better still, before they start their business.

Research by the Australian Taxation Office shows people are significantly more likely to seek information and advice from an accountant when commencing a business than governments (ATO, 2018). Therefore, policymakers should consider what incentives can be offered to encourage more start-ups to access advice from a professional adviser early in the life of their business idea, as opposed to governments offering that advice directly. Such advice can cover many things such as business planning, structuring a business, providing frank advice on ideas etc. Accessing such advice early should increase the chances of success, as well as possibly increasing the chances of accessing finance.

Recommendation 5:

CPA Australia recommends that the government consider offering FinTech and RegTech start-ups vouchers of a certain value that they can redeem with professional advisers for advice.

Regulation – FinTech Regulatory Sandbox

In the face of rapid FinTech development, regulators should strive to strike a balance between innovation and consumer / market protection. According to the 2018 Bali FinTech agenda developed jointly by the International Monetary Fund and the World Bank, regulation of new activities should be proportionate to their risks "in order not to stifle innovation" (IMF, 2018, p. 23). For this reason, FinTech regulatory sandboxes have been identified by governments around the world as a useful regulatory measure in promoting FinTech. The Australian regulatory sandbox, comprising three elements: existing statutory exemptions and class waivers, the 'fintech licensing exemption', and individual relief, is supported by CPA Australia.

However, as CPA Australia-supported research[5] on FinTech shows, there are several issues with Australia's regulatory sandbox regime that needs improvement to make it more internationally competitive.

The first issue is the 'fintech licensing exemption' does not have a vetting process for prospective participants into the sandbox. In comparison, admission to the Hong Kong and Singapore[6] regulatory sandboxes are vetted and approved by the regulator and a close dialogue between the sandbox participant and the regulator is maintained throughout the vetting and testing process. The Australian approach leads to significantly less

5 Please see CPA Australia's *Technology and the Future of the Profession* research report at: https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/professional-resources/business-management/technology-and-the-future-research-report.pdf?la=en&rev=02076b9b680241cb83a811ac11bafe3c

6 For more information on the regulatory sandboxes of Hong Kong and Singapore, please see: Hong Kong Monetary Authority: https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/fintech-supervisory-sandbox-fss/; Securities and Future Commission (Hong Kong): https://www.sfc.hk/web/EN/sfc-fintech-contact-point/sfc-regulatory-sandbox.html; Insurance Authority (Hong Kong): https://www.ia.org.hk/en/aboutus/insurtech_corner.html#1; Monetary Authority of Singapore: https://www.mas.gov.sg/development/fintech/regulatory-sandbox

interaction between the participants and the regulator, substantially reducing the scope for knowledge exchange between the parties.

Secondly, FinTech firms relying on the 'fintech licensing exemption' may find themselves at a disadvantage to participants in the regulatory sandboxes in Hong Kong and Singapore as Australian FinTech firms face the risk of having their access to the exemption terminated if their products or services "are not innovative and / or do not use technology when providing financial services or credit" (ASIC, 2017, p.17). In comparison, due to the pre-acceptance vetting process, participants in the Hong Kong and Singapore sandboxes do not face the risk of having their sandbox privileges withdrawn.

Recommendation 6:

CPA Australia recommends that, based on the experience of other jurisdictions including Hong Kong and Singapore, the government consider the benefits of vetting applicants for the regulatory sandbox.

Legislative amendments in February 2020 to enhance the regulatory sandbox are positive. Yet, we note that official documentation relating to the 'enhanced regulatory sandbox' does not appear to be fully aligned with the existing terminology. Specifically, the explanatory memorandum of the 'enhanced regulatory sandbox' from Treasury (2019) defines Australia's regulatory sandbox to the 'fintech licensing exemption' alone, as opposed to ASIC's broader definition of a regulatory sandbox comprising the three elements stated previously above. Isolating one element of the regulatory sandbox for enhancement may not be the best approach to improving policy settings.

Recommendation 7:

CPA Australia recommends the following measures to improve ASIC's regulatory sandbox be considered:

- ***A need for clarity and consistency in the interpretation of the regulatory sandbox regime. This may include broadening the assessment of the sandbox regime to include statutory exemptions, class waivers, and individual relief from ASIC.***
- ***A policy discussion on whether the disclosure requirements imposed on firms using the 'fintech licensing exemption' are sufficient to avoid creating the impression that ASIC endorse the FinTech product or service, as well as considering existing international practices.***
- ***With reference to the United Kingdom's Financial Conduct Authority's 'Regulatory sandbox lessons learned report' conduct a post-implementation review of ASIC's regulatory sandbox.***
- ***Continue looking for ways to expand ASIC's regulatory toolkit including continuing developments in RegTech such as the Natural Language Processing trials.***

Regulation – Regulatory Guidance and Code of Conduct

The Australian government must introduce and maintain flexible and adaptable regulatory frameworks that can keep pace with technological innovation to help ensure that Australia stays competitive in the global FinTech and RegTech markets. To facilitate technological development and uptake in Australia, regulatory frameworks need to be supportive of emerging technologies.

One of the key challenges for emerging technology is data privacy regulation (Australian Computer Society, 2019). Latest research provides evidence of tension between existing data privacy laws and emerging technologies such as blockchain technology, artificial intelligence and machine learning etc. (Berryhill et al., 2018; European Parliament, 2019). Not only have we observed that there is an obvious and growing concern among individuals that their personal data is used for purposes they are not consenting to, but it has also become clear that the rise of emerging technologies makes it easy for large amounts of data to be collected, stored and used in ways that may be inconsistent with public expectations.

With regards to data protection law, Europe has led the way with the General Data Protection Regulation (GDPR). The GDPR implements more stringent consent requirements for data collection, provides users with the "right to be forgotten" and strengthens supervision of organisations that gather, control and process data. Although the GDPR "was designed as a form of principles-based regulation that is technologically neutral and stands the test of time in a fast-changing data-driven economy" (European Parliament, 2019, p. 97), the consequences of the GDPR on emerging technologies are not yet fully understood (Berryhill et al., 2018).

In its recent study on Blockchain and the General Data Protection Regulation, the European Parliament (2019) found that blockchain technology[7] as well as artificial intelligence, machine learning and deep learning challenge core assumptions anchored in European data protection law. That is, the European Parliament states that difficulties emerge for blockchain technology, artificial intelligence, machine learning and deep learning in being able to comply with the GDPR's principles of data minimisation and purpose limitation, which require that personal data that is processed, is kept to a minimum and is only processed for predefined purposes.

Blockchain technology, for instance, does not allow for data to be modified or to be eliminated once it has been added to the blockchain. In turn, this implies that the database grows as new data is added. At the same time, the database is replicated on those computers that are allowed access to the blockchain. Considering the GDPR principles, as data can only be added to the blockchain but not be removed the "right to be forgotten" seems to be unenforceable. Besides the inability to erase "blockchained" data, blockchain technology's underlying append-only architecture is likely to defeat the purpose of the GDPR's data minimisation principle. Additionally, data added to the blockchain may have been added due to predefined purposes, however, it remains questionable whether the processing and utilisation of the initially added data also serves the same purposes when parties utilise this data for further and/or other decision-making processes.

The European Parliament (2019) claims that although there have been calls for revisions of the GDPR to make it "fit for purpose" considering the steadily increasing use of emerging technologies, this may not be required, given that it is not the structure or content of the GDPR that leads to confusion, but the uncertainty of how to interpret and apply specific concepts. These issues could be addressed through regulatory guidance without the need for legislative reform.

Policy Recommendation 8:

CPA Australia recommends regulators develop guidance on how existing regulation (especially privacy regulations) will be applied to emerging technologies.

The development and provision of guidance would have two objectives:

1. It would provide clarity to entrepreneurs and start-ups as to how to best develop products and services using or being supported by emerging technologies within the regulatory boundaries. According to the European Parliament (2019), developers have long emphasised the difficulty of building products and/or services enabled by emerging technologies that are compliant with existing regulatory frameworks. For example, the relatively low number of patents relating to blockchain technology in Australia – compared to China, the United States, South Korea, Japan and Europe (Australian Computer Society, 2018) – is likely to partially be a reflection of the lack of legal certainty of the requirements to design a compliant product. Guidance on how, for example, the GDPR is applied and how to interpret specific GDPR articles, would add more certainty and transparency.
2. The development of guidance provides room for modifications and amendments of guidelines in a dynamic, continuously evolving industry. This will be of significance as users of emerging technologies and

[7] CPA Australia is aware that different forms and architectures of blockchain technology exists (e.g. private, permissions and public, permissionless). The consideration of varying architectures of blockchain, for instance different consensus mechanisms, gains significance in the context of data protection law. However, elaborating on the technicalities of different blockchain designs goes beyond the scope of this submission.

developers of products and services enabled by emerging technologies are spanning across industries and jurisdictions (Bratanova et al., 2019).

As an alternative to regulatory guidance, CPA Australia further suggests the development and introduction of codes of conduct designed to ensure that data protection laws are respected. A similar approach was adopted in the cloud computing context. When cloud computing was introduced, the EU Data Protection Code of Conduct for Cloud Service Providers (EU Cloud Code of Conduct) was created to assist with GDPR compliance. The EU Cloud Code of Conduct was developed by the major providers of cloud-computing services in collaboration with the European Commission (European Parliament, 2019). CPA Australia believes that the collaborative development of codes of conduct involving regulators, private sector organisations, start-ups and academics facilitates more legal certainty in the field of emerging technologies and ensures higher compliance with regulation.

Policy Recommendation 9:

CPA Australia encourages the development and establishment of codes of conduct by regulators in collaboration with major technology firms and start-ups providing products and services that involve emerging technologies.

Culture – FinTech Events

Some governments are being proactive in fostering a culture of FinTech innovation and entrepreneurship within their jurisdiction. For example, InvestHK, the investment department of the Hong Kong government, has supported and participated in the Hong Kong FinTech Week since 2016. In 2018, the event drew more than 8,000 attendees from over 55 economies. InvestHK has also supported events organised by industry players such as 'Hong Kong Blockchain Week' and 'Finovate Asia'. In Singapore, the annual FinTech Festival is facilitated by the Monetary Authority of Singapore with the 2018 FinTech Festival attracting more than 45,000 participants from 130 countries.

While ASIC has organised RegTech Liaison Forums to facilitate discussion and networking on RegTech development and opportunities, the scale and scope of such events, relative to those in Hong Kong and Singapore, are small and narrowly-focussed. The lack of critical mass may hinder the development of a competitive FinTech niche in Australia.

To maximise the FinTech clustering and networking effect, and to attract international FinTech start-ups and investors into the country, Australia stands to benefit from more government involvement in facilitating annual FinTech events.

Recommendation 10:

CPA Australia recommends that the government organise or sponsor large-scale FinTech events annually. This could include expanding on the format of the RegTech Liaison Forums or GovHack, to include FinTech-specific hackathons.

Culture – FinTech Innovation Laboratories

Stone and Chalk, YBF FinTech Hub and X15 Ventures are some of Australia's major FinTech hubs that provide accelerator and / or incubation programs to FinTech start-ups. However, the small number of FinTech innovation labs in Australia may be detrimental to building up a critical mass of FinTech activities. In comparison, Hong Kong and Singapore have attracted a number of international and industry-led innovation labs. For example, at the end of 2019, there are 36 innovation labs located in Singapore, offering a wide-range of accelerator and incubator programs. Hong Kong, aside from having a number of business-led FinTech innovation labs such as Deloitte Asia Pacific Blockchain Lab and Accenture FinTech Innovation Lab, also

possesses a number of international innovation labs including The Floor from Israel and Nordic Innovation House from the Nordic countries.

Thus it is important for the government to step up its efforts to incentivise the industry to establish FinTech innovation labs in the country, including in regional areas.

Recommendation 11:

CPA Australia recommends the government explore ways to encourage international financial institutions and businesses to establish innovation labs that offer accelerator / incubator programmes to FinTech start-ups and to expand the number of FinTech bridges with other markets.

With the appointment of a FinTech minister in 2019, Australia may also benefit from establishing a dedicated FinTech contact point for international FinTech companies or start-ups seeking to expand into the Australian market and local FinTech companies or start-ups seeking to expand globally.

Recommendation 12:

CPA Australia recommends the government consider establishing a dedicated FinTech team / office within Treasury to manage and liaise with the industry, international and local businesses and investors, and formulate policies to establish Australia as a leading FinTech hub. Reference could be made to the FinTech team of InvestHK in Hong Kong.

Policy Research

Fundamental to Australia's success in technology development and adoption will be the shaping of the regulatory environment. In Australia, research into regulatory and legislative requirements has so far been limited. We believe that the government would benefit from more policy-focused research work addressing regulatory challenges as well as opportunities. A research approach similar to that adopted by the European Parliament may be beneficial for Australia: the European Parliament actively supports and encourages research on emerging technologies and their implications for various industries. For instance, in order to reinforce the work of the European Blockchain Observatory and Forum, the European Commission released the following call for tender: Study on Blockchains: Legal, Governance and Interoperability Aspects. This proposed research study is expected to provide empirical evidence to support the development of policy approaches to foster the European Blockchain initiative.[8] CPA Australia emphasises that such research is not only relevant for blockchain-focused research but does, in fact, apply to other emerging technologies such as artificial intelligence, machine learning and robotic process automation, to name only a few.

8 More precisely, by asking the following questions, this research is expected to examine legal and regulatory aspects of blockchain technology: *What is the problem that is being addressed, its nature and scale? What are the underlying causes and drivers? How and to what extent does the problem affect stakeholder groups/different Member States or third countries? How would the problem evolve without action at EU level? What are the general and specific policy objectives linked to the problem? What options are there for tackling the problem – including non-EU and non-legislative action? What are the findings of the latest research into the issue? What are the expected environmental, social and economic impacts of the policy options, particularly in terms of benefits and costs (including estimates of administrative burden, other compliance costs and implementation costs for public administrations and other stakeholders)? How should the success of the proposed legal framework be monitored and evaluated?*

Recommendation 13:

CPA Australia recommends that the government should encourage and support research through funding provided in a more targeted and strategic manner. Reference should be made to the European Commission's approach, whereby calls for tender are launched to examine specific policy-focused research questions.

In a similar way as the Board of Taxation undertakes research and other studies to improve the design and implementation of tax policy (with such matters approved or referred to it by the Treasurer), the role of the FinTech Advisory Group should be expanded to undertaking policy-focused research on matters important to supporting the FinTech sector. Such research should be undertaken on issues referred to it by the Treasurer, or under an own-motion power. The Treasurer should have an obligation to make public reports of this group within a set period, including the government's response.

Moreover, we support Australia's investment in the Digital Transformation Agency to explore the potential of using blockchain technology for government payments and Data61's Australian National Blockchain[9] project (see also The National Blockchain Roadmap), as this sends a positive signal to the Australian FinTech ecosystem. However, we also believe that apart from blockchain technology, artificial intelligence, machine learning, robotic process automation and other technologies evolve and thrive simultaneously and will be leveraged together. Therefore, we recommend that research projects be commissioned that explore combinations of emerging technologies and how those technologies can benefit each other. For instance, the combination of blockchain technology and artificial intelligence is a relatively undiscovered area. Even though the convergence of the two technologies is believed to significantly enhance the efficiency and effectiveness of several processes, the scholarly attention this combination of technologies has received, remains limited.

Recommendation 14:

CPA Australia recommends that the role of the FinTech Advisory Group be expanded, and its funding be increased to allow it to undertake its own research on FinTech policy so that it can better advise government, and that the government fund research into how the combination of emerging technologies can benefit each other.

Australian Representatives on International Working Groups

In January 2020, the OECD formed the OECD Blockchain Expert Policy Advisory Board (BEPAB), an expert group to provide advice on the OECD's work on blockchain technology including the development of high-level blockchain policy principles. The formation of the BEPAB reflects the OECD's expanding work in exploring the policy implications of blockchain technology. Forty-five OECD and non-OECD governments are represented on the BEPAB alongside European Commission representatives, the private sector, industry bodies, and civil society groups. We note that the only Australian member is a representative of Blockchain Australia. In order to enhance Australia's presence in the digital economy, we recommend senior government officials contribute to international working groups in the form of, for example, commentary letters, opinion pieces and policy recommendations.

This recommendation does not only apply to the BEPAB, but to working groups initiated and established by international bodies in general. Several regulators[10], standard-setters[11], non-government and not-for-profit

[9] In 2018, Data61 formed a consortium with law firm Herbert Smith Freehills and IBM to build Australia's first cross-industry, large-scale, digital platform to enable Australian businesses to collaborate using blockchain-based smart legal contracts.

[10] e.g. Australian Securities and Investments Commission (ASIC)

[11] e.g. International Auditing and Assurance Standards Board (IAASB), Auditing and Assurance Standards Board (AUASB)

organisations[12] have formed working groups on emerging technology issues, which would benefit from the government's contribution. While some of these working groups have a policy focus, others are centered around technicalities or applications.

Recommendation 15:

CPA Australia recommends government appoint senior officials to participate in OECD and other international working groups in order to place Australia and Australian stakeholders in a strong position to shape and influence the future of Australia's emerging technology sector.

Tax Settings

Australia's tax framework is generally sufficiently flexible to accommodate the new products and business models often seen in the FinTech and RegTech industries. For example, the ATO's guidance on the tax treatment of crypto-currencies is aligned with existing legislation and Australia's involvement in the OECD/G20's BEPS Inclusive Framework and ensures that our policies develop in line with other member countries. However, there are specific instances where legislation needs to be changed so that FinTech and venture capital businesses can access certain concessions or tax treatments. In these instances, a streamlined legislative reform process to enable timely correction of the law would benefit the industry. Treasury consultations throughout 2016 and 2017 identified opportunities to improve venture capital investments in FinTech and we anticipate this Inquiry could identify further reforms for consideration.

The Australian FinTech and RegTech industries are beneficiaries of the Research and Development (R&D) tax incentive, particularly smaller businesses in start-up phase that operate at a loss as they develop their products. We support targeted tax concessions that encourage Australian industry and maintain its competitiveness, but also recommend consideration of more targeted grants to reduce the current heavy reliance on the tax incentive to encourage innovation.

While the legislation governing the incentive has remained relatively stable since its inception in 2011, the changing administration of the regime has created uncertainty and financial burdens for many claimants. These issues were most recently highlighted in the Australian Small Business and Family Enterprise Ombudsman's report, Review of the R&D Tax Incentive. We support the recommendations presented in the report and encourage the Committee to examine whether the ATO and AusIndustry are responding appropriately.

With respect to the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 currently before Parliament, while we support refinements to tax concessions to ensure integrity is maintained, we caution that constraints placed on the R&D tax incentive may reduce the level of R&D undertaken in Australia, eliminate jobs, limit the creation of valuable intellectual property and encourage the shift of businesses offshore. In the longer-term, the estimated gains to revenue may be outweighed by reduced corporate, individual and withholding tax receipts.

Finally, the Australian corporate tax rate is now one of the highest in the OECD and creates a significant barrier to investment and expansion for Australian companies. The FinTech and RegTech industries are highly mobile and Australia's high taxes create an incentive for startups and entrepreneurs to relocate overseas to remain competitive. We recommend a reduction in the corporate tax rate to retain businesses, create employment and increase working capital.

[12] e.g. Standards Australia (working groups on Blockchain technology, Artificial Intelligence, IT governance etc.)

Recommendation 16:

CPA Australia recommends that the Committee consider the recommendations from the Review of the R&D Tax Incentive by the Australian Small Business and Family Enterprise and comment on the potential impact the proposed changes to R&D currently before Parliament will have on the FinTech and RegTech sectors.

Recommendation 17:

CPA Australia recommends a reduction in Australia's corporate tax rate to enhance competitiveness of our businesses and ensure economic activity and employment is retained in Australia.

Supporting Literature

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