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The Rise and Rise of RegTech: Does it spell the End of the Annual Audit?

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CEO Message: The Rise and Rise of RegTech: Does it spell the End of the Annual Audit?

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The Australian Banking Royal Commission's recent final report into the banking and financial services industry makes 24 referrals to the regulators to take action over misconduct. It also made 76 recommendations for how the problems can be fixed and contained scathing criticism of executives. Bankers were not named and shamed, but the Commission lays out the potential for more than 20 prosecutions involving the major banks, at the discretion of the regulators, some of which could be criminal, some civil, and some both.

In my last few CEO messages, examples of businesses behaving badly in their quest to generate higher profits, and being rewarded for this errant behaviour with higher share prices was a recurrent theme. Therefore, the final report of the Australian Banking Royal Commission showing banks behaving very, very badly was no surprise. Shareholders appeared to prefer higher profits to ethical behaviour. Mr. Rod Sims, the chairman of the *Australian Competition and Consumer Commission* (ACCC), said that as part of its enforcement activity for the month of April 2018, ACCC had ordered penalties on iconic names such as *Ford, Telstra, Thermomix, Flight Centre, Woolworths, Nurofen, Meriton, Optus Internet, Pental etc*., each having to pay many million dollars in fines. I also questioned why there had been a shuddering silence by the statutory auditors as most of these companies had received an unqualified audit report. The answer is simple, the *International Financial Reporting Standards (IFRS)* does not ask the auditors to give an opinion on the "ethics" of a business transaction. IFRS only asks for the transaction to be recorded properly as per the relevant IFRS Standard.

As unethical practices could be undertaken without any danger of a statutory audit qualification; it was clear that even though the fines and penalties ran into millions of dollars, they could easily be absorbed by the sheer volume of revenue generated by the unethical actions. In other words, companies assess the profitability of law breaking by weighing the benefit to be gained against the cost of being caught, multiplied by the probability of being caught.

In the wake of the 'toothless tiger" that the statutory audit has become; I asked management accountants to further distance themselves from the financial accounting and auditing profession and ensure that they are able to inculcate good strategic governance and strategic audit practices in the organisations in which they work.

This is where ***RegTech*** and ***FinTech*** come in.

The term ***FinTech*** is an abbreviation of *Financial Technology*, which covers all of the new technology and innovation that have developed in the delivery of financial services. Once considered more of a back-end, data centre processing platform, FinTech has in recent years come to be known as the basis for end-to-end processing of transactions over the Internet via cloud services. FinTech now uses disruptive technologies to improve activities in finance to compete directly with the more traditional financial services delivery modes.

The use of smartphones for mobile banking, investing services and cryptocurrency are examples of disruptive technologies aiming to make financial services more accessible to the general public. Whilst financial institutions such as banks and finance companies have been the first to jump on the bandwagon of implementing Fintech solutions and technologies in order to improve and develop their services, manufacturing, retail and service companies (such as hospitals) are also incorporating Fintech solutions to gain improved competitive positioning. Today, non-financial services industries are applying Fintech solutions in areas as: (a) data mining and data analytics; (b) corporate health check controls; (c) early warning systems; (d) supply-chain controls; (e) horizon scanning; (f) strategic cost management controls; (g) customer profitability analyses; (h) strategic business analysis controls; (i) corporate social responsibility (CSR) controls; and (j) strategic scorecards.

This vision of a technology led regime has already been proposed as early as 2014, by Andy Haldane, Chief Economist, Bank of England, during a keynote address at Birmingham University[1]:

> *"I have a dream. It is futuristic, but realistic. It involves a Star Trek chair and a bank of monitors. It would involve tracking the global flow of funds in close to real time (from a Star Trek chair using a bank of monitors), in much the same way as happens with global weather systems and global internet traffic. Its centerpiece would be a global map of financial flows, charting spill-overs and correlations."*

The disruptive nature of technology on financial services (i.e. FinTech) has brought with it a regulatory compliance nightmare. How do you keep pace with all of the new regulation that governs financial services, and avoid being fined for non-compliance? Since 2008, there have been over US$400 billion being imposed on regulatory fines.

Enter ***RegTech*** (Regulation Technology), the marriage of technology and regulation to address the regulatory challenges faced by these very financial services. Technological disruption to financial services has made regulation highly data acquisitive; involving the use of real-time information and the incorporation of algorithms and analytics.

For example, new approaches to streamline Anti-Money Laundering (AML) checks would enable firms to differentiate themselves; and social media and biometrics can be used to transform how customer due diligence is done, how anti-fraud measures work and how banks can filter the good from the bad when deciding whether to make a suspicious activity report. The automation of due diligence, using data that can be tailored to a firm's risk-based approach, is at the forefront of this RegTech revolution, disrupting ineffective and outdated processes of regulation compliance by using artificial intelligence and machine learning.

RegTech uses the technologies of: (a) cloud computing; (b) blockchain; (c) application program interface (API); (d) machine learning; (e) big data; (f) data mining and analytics; (g) predictive analysis; (h) smart contracts and (i) visualisation solutions.

RegTech works well in companies that have heavy quantitative based obligations, information-based obligations and risk identification and management controls including: (a) legislation / regulation gap analysis controls; (b) identity verification; (c) compliance reporting; (d) management information controls; (e) transaction reporting controls; (f) regulatory reporting controls; (g) case management controls; (h) transaction monitoring; (i) activity monitoring controls; (j) training obligations and (k) risk management data warehouses.

In the short term, RegTech will help firms to automate the more mundane compliance tasks and reduce operational risks associated with meeting compliance and reporting obligations. Research done

by Deloitte[2] indicates that the RegTech universe comprises of five-big areas: those that are in: (a) compliance (30%); (b) risk management (18%); (c) identity management and control (26%); (d) Regulatory reporting (13%); and (e) transaction monitoring (13%).

In the longer term, the combination of *FinTech* and *RegTech* will enable the continuous auditing and continuous reporting, both of a compliance and strategic nature to be undertaken in companies on a real-time basis. Companies buying into the combined FinTech and RegTech universe focus on the automation of manual processes and the links between steps in analytical/reporting processes, the improvement of data quality, the creation of a holistic view of data, the automated analysis of data with applications that are able to learn during the process, and the generation of meaningful reports that can be sent to regulators and also used internally to improve key business decision making. This is the marriage of conformance and performance on a real-time basis, and this is where the ***strategic audit*** comes in.

Many firms invest heavily in their brand reputation to signal that they can be trusted. The greater the likelihood that bad behaviour will be exposed and made public, the more companies will do to guard against behaviours that significantly diminish brand reputation. As such, the management accounting profession should call upon the government to legislate that companies undertake compulsory strategic audits to evaluate business practices beyond simply the financial reporting of the past. Key business practices in marketing, advertising, supply-chain, manufacturing, human resource management, information technology and finance need to be strategically audited to ensure that brand reputation and shareholder value is future-proofed against rampant bad behaviour by corporates, by the silence of their compliant financial auditors who are unable to differentiate between good and bad ethical practices.

The financial accounting profession already recognises that the rise and rise of RegTech could be the start of the end of the annual statutory audit. The *International Federation of Accountants (IFAC)* on its website has this warning from Liv Watson, Co-Chair, ICAEW Natural Capital Accounting[3] as follows:

"RegTech will probably have a profound effect on the audit profession—and audit will need to adapt. Business now "live and breathe" in real time but audit has yet to adjust to this new norm—audit still operates on an annual basis at the end of the year. RegTech will allow for audit analytics during the entire year, and a more trusted audit. Continuous auditing, continuous reporting—that train has left the station. Are you on board?"

I would go further. We need continuous auditing and continuous reporting not only of *past performance*(financial statement audit) but also of how decisions today will impact the *future performance* of the company (strategic audit).

This is not a train, it's a rocket to another universe.

Management accountants get on board before you all too are left behind.

Regards,

Professor Janek Ratnatunga, CMA, CGBA

CEO, ICMA Australia

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive.

[1] Andy Haldane (2014), "Managing Global Finance as a System" Speech at the Maxwell Fry Annual Global Finance Lecture, Birmingham University (Oct. 29, 2014)

[2] Deloitte (2016), ***RegTech is the new FinTech***, How agile regulatory technology is helping firms better understand and manage their risks.

[3] Liv Watson (2018), RegTech Will Help Transform Audit, IFAC **Audit & Assurance**, March 5, 2018. https://www.ifac.org/global-knowledge-gateway/audit-assurance/discussion/regtech-will-help-transform-audit

THE CERTIFIED MANAGEMENT ACCOUNTANT

Making sense of

the bottom line...

Automation will help make finance staff work faster and smarter

- According to Australian CFOs, the top three advantages businesses will experience from automation: better decision-making capabilities (71%), increased efficiency and productivity (59%) and employees taking on more value-added work (56%).
- The top benefits of workplace automation for finance staff: increased productivity (71%), more time spent on execution of tasks and less on data entry (61%) and staff quickly learning new capabilities (54%).

Amid growing concern that robots are winning the race for Australian jobs [1], new independent research commissioned by specialised recruiter Robert Half, which surveyed 160 CFOs in Australia, has revealed the general consensus among Australia's finance leaders is that automation will bring about a positive change in the finance department, leading to better decisions and higher productivity for those who are willing to adapt to change.

The advantages of automation

The benefits brought about by workplace automation for finance organisations are plenty. According to Australian CFOs, the top three advantages businesses will experience in the finance department are better decision-making capabilities (71%), more efficiencies and productivity (59%), and employees taking on more value-added work (56%).

For finance employees, the positive impacts of automation on their daily workloads are increased output (71%), increased focus on the execution of tasks and less on the inputting of data (61%) and increasingly being able to quickly learn new capabilities (51%).

David Jones, Senior Managing Director of Robert Half Asia Pacific said: *"While perception for some might be that automation envisions business functions being replaced by robots, this isn't always true. Australia's finance leaders are not expecting automation to bring about negative impacts in the form of job losses. Instead, the nature of the finance function will change. The emergence of digitisation and automation within the finance function marks the start of a transition period towards realising new and previously untapped potential."*

"The benefits from automation for businesses and individual professionals is potentially huge. Businesses will be able to produce more results, and staff will be able to provide more value-added expertise to their organisation in less time. New technologies will also free up time for workers to upskill themselves so they can deliver better results for their company – whether through increased sales, output, or a more skilled and IT-adept workforce."

"Automation has the capability to increase a business' productivity and efficiency – not by reducing headcount in favour of computerisation – but by empowering Australia's workforces and transition into the type of new-generation jobs that will propel businesses into the future. These roles will typically involve greater emphasis on analytics, creativity, problem-solving and strategic thinking."

The finance function needs to evolve

While 96% of Australian CFOs agree that increased reliance on technology and digital processes can deliver a positive impact to the finance function, it will be crucial for organisations to ensure they have the necessary skills needed to unearth the positive impacts for both companies and employees alike.

Indeed, while companies will be looking to sharpen their competitive edge with automation, the pressure will fall on a savvy workforce to make things happen. More than three in four (83%) CFOs agree their finance function still has a long way to go in updating its technologies and digital processes.

"What we're seeing is an increased awareness and appreciation for the positive impacts of automation on finance functions, but we're still very much on the cusp of change. Organisations understand they need to refocus the workforce to truly realise the benefits of combining the right human skills with new technology. And that will be an ongoing process," concluded **David Jones.**

[1] http://www.smh.com.au/business/workplace-relations/man-versus-machine-evidence-that-robots-are-winning-the-race-for-jobs-20170328-gv8mub.html

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About the research

The annual study is developed by Robert Half and was conducted by an independent research firm, surveying 160 Chief Financial Officers (CFOs) and Finance Directors in Australia. This survey is part of the international workplace survey, a questionnaire about job trends, talent management and trends in the workplace.

These six tech trends are set to govern skills in demand for 2019

From AI and machine learning to blockchain and data science, six tech trends are set to govern IT skills in demand this year, advises recruiting experts Hays.

"Now that we are well into 2019, it's clear that the tech landscape shows no signs of slowing down any time soon," advises Adam Shapley, Managing Director of Hays Information Technology.

"The latest technology developments have created increased demand for highly-skilled IT professionals which is only set to grow this year and beyond.

"Across almost every industry and sector, we are seeing more and more traditional organisations adopting technologies to streamline their processes and boost business efficiency," he says.

According to Hays, the six tech trends that will drive staffing demand in 2019 are:

1. Blockchain

Since its emergence in 2008, blockchain has established itself as a ground-breaking technology with huge potential to transform businesses and impact every industry and sector. As more organisations begin to realise the plethora of opportunities blockchain technology can offer, they are scrambling to get their hands on the limited supply of skilled and knowledgeable blockchain experts.

2. AI & Machine Learning

AI and machine learning is a hot topic of conversation across organisations as a whole, not only in IT departments. While not all companies are ready to hire these skills just yet, the demand is growing from employers keen to investigate and uncover the new opportunities that AI and machine learning solutions can provide. IT professionals with this skill set will be increasingly sought after as organisations look for ways to remain competitive and drive innovation.

3. Data Science and Engineering

The demand for data professionals continues to grow at a rapid rate. Every organisation is collecting data, analysing it, and seeking to problem solve and make more informed business decisions through better utilisation of their data. Data Scientists, Engineers and Analysts with experience in R, Python, Scala and/or SQL with data visualisation tools are therefore sought to assist organisations in exploiting their data. Data Scientists with big data experience using technologies such as Hadoop are also widely desired.

4. Cloud Engineering

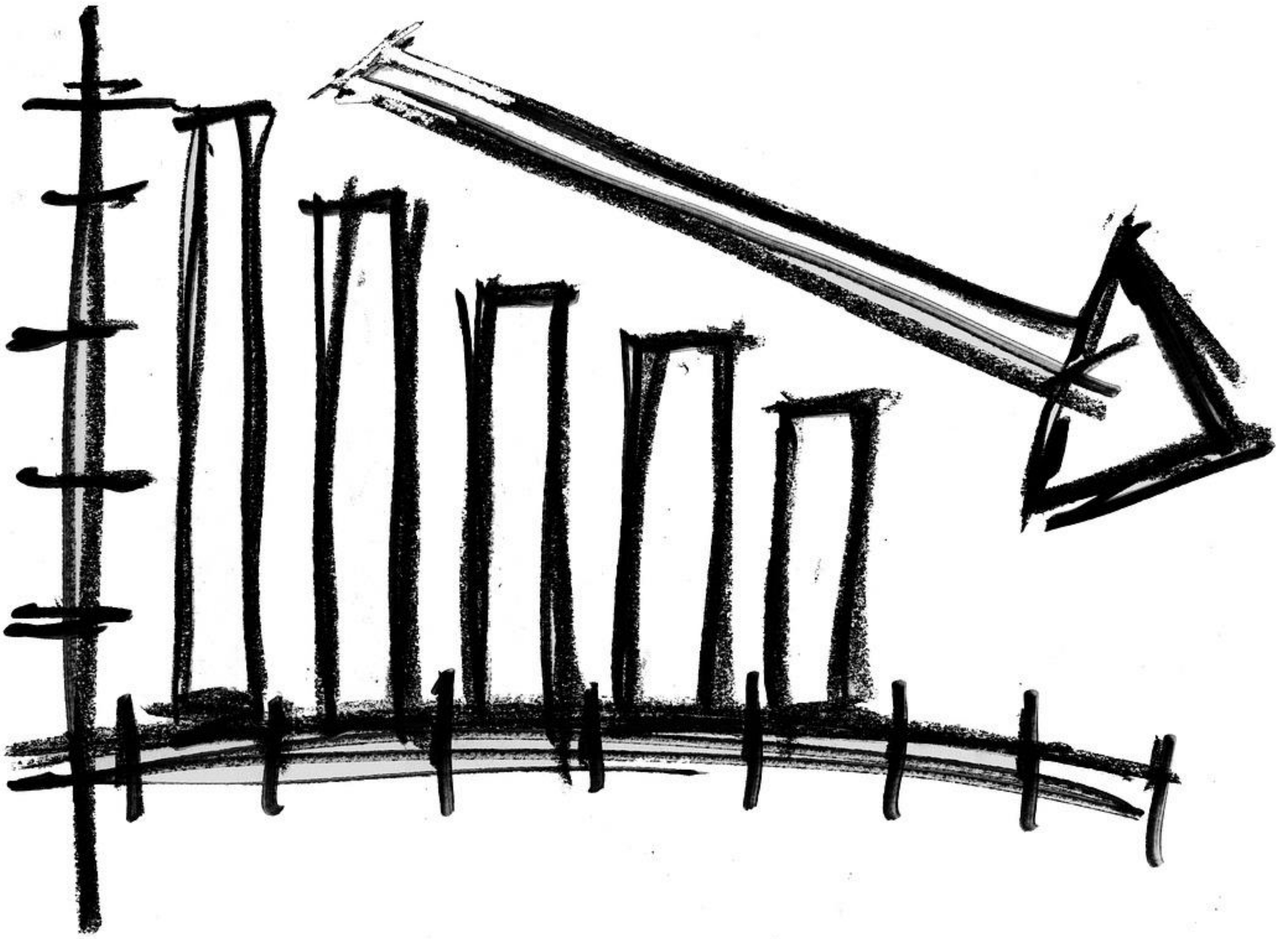
Regardless of what cloud computing solution an organisation has selected, Cloud Engineers will be required to plan, develop, configure, maintain and support the cloud software and infrastructure. Cloud Engineers with a broad skill set across multiple cloud technologies and exposure to cloud migration projects are in demand, with AWS and Azure continuing to dominate this space and GCP slowly gaining popularity.

5. DevOps

A few years ago, "DevOps" was a coined term that few knew about. Fast forward to 2019 and DevOps Engineer is the most recruited job ever on LinkedIn. With organisations looking to integrate their internal business applications and deliver new software faster to their clients, candidates with a DevOps skill set are in high demand to effectively streamline the process. Demand is particularly strong for candidates with a development background as employers are seeing the additional benefits that a strong programming background can offer to an organisation.

6. Cyber Security

As organisations increasingly pursue digital transformation and build data-driven businesses, the risk of cyber threats and data breaches has never been higher. Cyber security experts with skills in penetration testing and intrusion detection, DevSecOps, cloud security and encryption are highly sought after to protect the vast quantities of sensitive data and information being collected and stored.



We need to talk about the R-word

Australia has long been labelled 'the lucky country' or the 'wonder from down under', having experienced a record 27 years of uninterrupted annual economic growth between June 1991 and June 2018.

Our winning streak is unmatched among developed economies, spurring years of international investment and financial sustainability.

"The ability of Australia's economy to avoid recession for 27 years is great, but today's ABS (Australian Bureau of Statistics) figures show we've now entered an effective recession in Australia, with GDP per capita shrinking in both Q3 and Q4 of 2018," UNSW Business School Professor Richard Holden said ***in an interview****.*

The Dutch held the previous record of 24 years, only to be knocked over by the Global Financial Crisis (GFC) in 2008 – in what was a bullet dodged for Australia.

But like all good things, it has now come to an end. It's now time to talk about that R-word.

So, what technically is a recession?

A recession is defined as two consecutive quarters of economic decline, measured by the gross domestic product (GDP) of a country.

In practice, this means a drop in things like employment, income and retail trade for two quarters (or six months – each quarter being three months).

Professor Holden explained the recent ABS figures: "Two quarters of negative growth – that's a recession on a per capita basis – and the figures show a large part of that is consumer spending, growing at only 0.4% in Q4."

How long does a recession last?

In a textbook economic cycle, a recession typically lasts between three quarters (nine months) – six quarters (18 months).

However, the impact of a recession can be long lasting, with many global economies still reeling more than 10 years after the collapse of Lehman Brothers triggered the GFC.

For example, after the financial crash, the UK's economy shrank by 6% in 2008-2009 and it took the UK five years to recover.

When does a recession become a depression?

A depression is an extended recession. In a recession, the economy will contract for two or more quarters before recovering. However, a depression will last several years.

"Given the level of unemployment in Australia, how wages growth is persistently weak, and stubbornly low inflation, the economy should be roaring along. It's not. This gives us further evidence that secular stagnation has hit Australia," Professor Holden said.

What are the signs of a recession?

The typical signs to look for when a recession is occurring:

- *A fall in house prices*
- *Declining business orders*
- *A fall in employment and subsequent rise in unemployment*
- *A slowdown of other major markets (in Australia's case, China)*

Professor Holden added: "We could have a severe downturn in our main trading partner, which is China. War in India might spark global financial turmoil."

What does it mean for you?

When a recession happens, you're likely to see a reduction in your mortgage. Central banks are likely to cut interest rates to try and make the public spend (to stimulate growth).

Finding a job is going to become more challenging. Most businesses will experience reduced profits, which will lead to 'streamlining' (ie. job redundancies). As a result, companies are more inclined to cut back on investment as they try and ride out the recession, which will mean fewer jobs in the process.

You will find yourself spending less money in shops, subsequently stores will see a drop in sales.

Your assets will decrease in price – this means your shares and your house will be worth less as prices fall.

Tax revenues will decline, forcing the government to borrow more, leading to a rise in government debt and higher taxes for you in the long term.

Nothing out the ordinary

A recession is very much considered part of the norm, in the course of a business cycle the economy contracts during a downturn and expands when it speeds up.

With GDP being only one technical indicator of economic health, experts will be keenly observing government figures for other signs of an economic downturn.

IBAC's Operation Gloucester public hearings conclude and identify significant issues with police practices

IBAC's public hearings into Victoria Police practices when taking witness statements has heard testimony that improper practices had occurred and may still be occurring.

The hearings focused on Victoria Police's witness statement taking practices and compliance with the obligation to disclose evidence during the Lorimer task force investigation into the murders of Sergeant Gary Silk and Senior Constable Rodney Miller, as well as other Victoria Police investigations.

IBAC Commissioner The Honourable Robert Redlich QC said: "Improper practices by Victoria Police in preparing witness statements and non-compliance with their obligations to make full disclosure to prosecution and defence during the Silk-Miller murder trials has emerged during IBAC's hearings."

Commissioner Redlich said IBAC's Operation Gloucester investigation was appropriate for public hearings as irregular witness taking practices has the potential to adversely impact the integrity of criminal investigations and the delivery of justice in summary hearings in the Magistrates' Court and in trials in the County and Supreme Court.

"The public hearings were not a 'reopening' of Victoria Police's Operation Lorimer, which investigated the Silk-Miller murders," Commissioner Redlich said.

"While witness taking practices in the Lorimer investigation prompted this inquiry, the public hearings examined past and present practices beyond Lorimer.

"The IBAC public hearings are an important part of our work to expose corruption and police misconduct, and importantly, also inform corruption prevention efforts.

"I expect that the evidence presented at these hearings will now result in Victoria Police examining their training programs, practices and also the current police culture that enables the identified improper practices.

"Police have significant powers, and the community rightly expects them to always use these powers responsibly and perform their duties fairly, impartially and in accordance with the law.

"It is therefore important to thoroughly analyse these practices particularly as it is evident from the testimony provided at our hearings that such practices are still occurring."

The hearings heard evidence from 34 witnesses and 376 exhibits were tendered.

Held over four weeks, and concluding today, the public hearings are part of the Independent Broad-based Anti-corruption Commission's (IBAC) Operation Gloucester investigation.

The Commissioner also acknowledged the support and attendance of the Silk and Miller families during the public hearings.

Operation Gloucester is an ongoing investigation. Anyone with information relevant to the investigation is encouraged to report it now at www.ibac.vic.gov.au/report or call 1300 735 135.

A public report on Operation Gloucester is expected to be tabled to Parliament in 2019.

Is ASIC the watchdog that no one fears?

The Banking Royal Commission has raised questions about the role of the Australian Securities and Investment Commission, writes Professor Jason Harris, specialist in corporate law at the University of Sydney Law School.

The Banking Royal Commission's final **report** revealed widespread misconduct and blatant illegality in the financial services industry. This raised legitimate questions of whether ASIC was asleep on the job or was, as some have claimed, the watchdog that no-one fears.

Too much for the regulator?

ASIC's enforcement track-record has been criticised, particularly its use of administrative and negotiated sanctions as primary enforcement tools, rather than taking court action to obtain tougher penalties on companies that break the law.

One common criticism of ASIC is that it simply has too much to do. Since ASIC was created, its responsibilities have expanded from general corporate regulation to include regulation of stock market participants, managed investments, trustee companies and the massive areas of consumer protection in financial services (which includes banking, insurance and superannuation) and consumer credit regulation. There are few aspects of our daily lives that ASIC does not have some responsibility for.

Unfortunately, ASIC's resources have not kept up with these increased roles, with its staffing resources only increasing 18 percent since 1995 (source: **ASIC annual reports**). Although its funding increased from $121 million in 1995 to over $400 million in 2017, the increase in its regulated population has grown far more than this funding can address. For example, the numbers of companies registered in Australia (just one aspect of ASIC's role) has increased from less than 1 million at the start of ASIC's life to over 2.6 million currently.

While the Final Report acknowledged concerns with ASIC's remit, it rejected breaking up ASIC, and supported the 'Twin Peaks' model of regulation that places the primary responsibility for regulating corporate conduct on ASIC. APRA retails responsibility for the financial viability of banks, insurance companies and most super funds.

New powers for ASIC

Not only does the report support the Twin Peaks model (Rec 6.1), it proposes to give even more responsibility to ASIC. The report recommends that ASIC be given new powers:

- to approve all codes relating to APRA-regulated institutions and Credit License holders

- to co-regulate the Banking Executive Accountability Regime (known as the BEAR, which applies to large ADIs) together with APRA (Rec 6.8), as well as extending the BEAR to all APRA-regulated entities.

The report recommends a new regulatory oversight body be introduced to review and report regularly on the performance of ASIC and APRA (Rec 6.14), and that regular capability reviews be undertaken (Rec 6.13).

Significantly, the Report recommends a major shift in ASIC's enforcement strategy, by reducing reliance on negotiated and administrative sanctions, and that ASIC start by asking why court action should not be brought. This recognises the public interest in having serious misconduct dealt with by a court, but a big increase in litigation will require far greater financial and staffing resources than ASIC currently maintains. Furthermore, a litigate-first approach will likely harden the relationship between ASIC and its regulated populations.

The Report recommends that companies develop open and transparent relationships with ASIC and APRA, but is highly critical of the use of negotiated outcomes. With respect, the Commissioner can't have it both ways. Telling regulators to sue more often and to pursue tougher penalties will encourage regulated populations to be more cautious when dealing with ASIC.

Not tough enough?

It is accepted that the evidence of misconduct revealed during the Commission has highlighted a failure by ASIC to take tough enforcement action even where it had evidence of repeated and serious contraventions of the law, so change was needed, but placing litigation as the first choice will clog up the courts with cases and fill up lawyers' pockets with advisory fees.

The Report also criticises the use of enforceable undertakings (EUs) and infringement notices. ASIC should consider whether an EU is likely to produce a deterrent effect and whether admissions of liability should be obtained.

Public companies are reluctant to admit liability through an administrative process because it may paint a target on them for shareholder class actions and litigation funders. The Report recommends that infringement notices be used only for administrative failings (Rec 6.2).

This goes against the current regulatory trend to give regulators more powers to impose regulatory fines by issuing infringement notices, which also helps boost government revenues.

Infringement notices have been a controversial tool because they are essentially regulatory parking fines where a defendant can simply pay the fine rather than going to court, usually with no acceptance of liability and no further regulatory action taken.

Back to the future?

Concerns have been raised about the effectiveness of infringement notices, given they are virtually always paid with no court determination of liability and are seen as simply a cost of doing business and so don't necessarily change corporate behaviour.

Lastly, the Report recommends a structural separation of enforcement staff within ASIC so as to minimise the risk of regulatory capture with ASIC's regulated entities (Rec 6.2). This is essentially 'back-to-the-future', as prior to Chairman D'Aloisio in 2008 enforcement staff were separate.

Chairman D'Aloisio's restructure of ASIC tried to provide a more dynamic and cooperative ASIC workforce to discourage information silos. The Report suggests that if such a separation does not produce desired change then a new federal civil enforcement body should be created to pursue regulatory enforcement.

Such a move could prove useful if also given jurisdiction over criminal enforcement of corporate laws as this could address concerns that criminal prosecutors don't prioritise white collar crime such as corporate law breaches in the same way that they do violent crimes.

Final thoughts – too big, too small, or just right?

While many have argued that ASIC is too big to be effective, Commissioner Hayne disagrees and recommends putting even more on ASIC's plate.

Unless this is accompanied by a massive increase in funding and resources, it is unlikely to be effective.

Shifting more work to ASIC suits politicians as they look like they are doing something, but the business community knows that ASIC is given an impossible task and the Royal Commission recommendations will only add more pressure on ASIC to do more with less.

As former ASIC Chairman Greg Medcraft has said, you get the regulator you pay for.

Willpower can cut investment fails: Monash study

Investors could soon train their brains into making smarter financial decisions by harnessing willpower.

An Australian-first training program created by researchers at Monash University could help investors train their brains against the urge to hold onto bad investments instead of cutting their losses.

The findings by **Dr Kristian Rotaru** from **Monash Business School** and his research collaborators could be the basis for new schemes that teach people how to make better financial decisions.

It starts with overcoming the human tendency to fixate on what we paid for something and the natural unwillingness to walk away without making a profit.

“We proposed and tested a new cognitive training scheme that exploits the human capacity to abstract from one’s own history to overcome unnecessary fixation on the past purchase price. This theory applies to any market where assets can appreciate or depreciate, such as a car or home,” Dr Rotaru said.

The researchers conducted three separate tests with 68 participants across four-week intervals at the Monash Business **Behavioural Laboratory**.

This clinical test, the first of its kind in a financial setting, tracked the eye movements and the skin responses of each participant to assess their emotional arousal after being exposed to a number of scenarios.

Initially, in a simulated scenario, the participants were investing their own capital. However, the investment approaches of each individual changed when they were asked to guide the financial decision-making of a colleague or client in a hypothetical business environment.

“Once you really want to help someone, you become a more ‘procedurally rational’ decision maker – with a tendency to follow a specific strategy that could be potentially explained to the client. People may not find it as easy to convince their client to hold on to a losing asset for too long in the hope of market reversal,” Dr Rotaru said.

Previous studies suggest that the disposition effect – the theory where investors sell at a profit and hold onto their losses – occurs when investors become more risk-seeking with loss-making assets. Additionally, investors want to avoid regretful decision-making and are prepared to wait until the stock makes a profit to justify their initial decision.

Dr Rotaru says the next step is to train people to become better decision-makers, especially those who are investing on behalf of other people.

“The research actually opens a new chapter in designing the interventions or schemes that generally improve financial decision-making,” Dr Rotaru said.

The study is a join collaboration between Dr Rotaru; Professor Peter Bossaerts and Dr Nitin Yadav from the University of Melbourne; and Professor Petko Kalev from La Trobe University.

Is Australian business ready for the Fourth Industrial Revolution?

- Global research by Deloitte explores C-suite views on readiness for the impact of the **Fourth Industrial Revolution** (Industry 4.0)
- Australian business more likely to invest in disruptive technology
- A quarter of Australian business leaders see positive social impact as the most important measure of annual performance
- 60% say they plan to train their current employees to help them close any skills gaps.

Australian business leaders are more likely than their global counterparts to invest in new technologies to disrupt their market, rather than protect existing market share, according to Deloitte's second annual global Readiness Report, ***Leadership in the Fourth Industrial Revolution: Faces of progress***, released today.

Almost half (49%) of Australian business leaders say they invest in new technologies to disrupt their market, compared with 33% globally. And Australian businesses are well-placed to innovate, with 61% of executives believing they have permission from leadership to fail and learn in the context of innovation.

"As a nation, we are not short on brilliant ideas," said **Deloitte Chief Strategy & Innovation Officer, Robert Hillard**. "From the bionic ear to polymer bank notes, Australian companies have created world leading innovations. Our challenge, as we compete on the world stage, as a country and individual businesses, is how we consistently commercialise research, to bring the best ideas to life. As the revolutionary impact of new technologies like artificial intelligence, robotics and 3-D printing becomes apparent, it's encouraging to see Australian business embracing change by investing in technology and their people."

This year's survey of more than 2,000 C-suite executives across 19 countries, including Australia, highlights how business leaders are adapting and preparing for the future and their attitudes towards societal impact, strategy, technology and talent.

In 2018, when asked about their organisation's readiness for technological and societal change, just 2% of Australian leaders said they felt highly confident, compared with 14% of executives globally. This year, when questioned on their readiness to lead their organisations to capitalise on Industry 4.0, 37% completely agreed that they feel ready. Leaders' confidence in Australia also now exceeds the global average of 34%. This increased confidence is perhaps partly due to greater awareness of what Industry 4.0 is and community discussions around its impact on the future of work and skills education.

Positive societal impact now a business priority

In the wake of the Financial Services Royal Commission, business is responding to community trust concerns: almost a quarter (24%) of Australian corporate leaders now rank having a positive societal impact as the most important success measure in evaluating their annual performance. Having a positive societal impact ranks second only to employee satisfaction and retention (30%), and notably higher than financial performance (16%).

Proving that profit and social purpose can co-exist, over half (52%) of Australian business leaders invest in initiatives they hope will have a positive social impact to generate new revenue streams. Only 9% say they do so to meet shareholder expectations. Furthermore 57% of business leaders in Australia say they have generated new revenue by developing or changing products or services to be more socially or environmentally conscious.

Investing in future skills development

More than half (57%) of Australian business leaders say they know which skills their future workforces will need to thrive in the Industry 4.0 future and, significantly, 60% say they plan to extensively train their current employees to help them close any skills gaps (compared to 43% globally).

Australian businesses are also more enthusiastic than their global counterparts that the current education system will sufficiently prepare individuals for Industry 4.0 (Australia 53%, global 43%).

"Business leaders are listening to their employees," said Robert Hillard. "There are community fears about robots taking people's jobs, but history shows us that more jobs are created than lost by technological change. It's easy to be fearful about the future, but machines are taking away repetitive and highly physical tasks and creating opportunities for problem-solving and creativity. Our report shows that the majority of businesses are helping their people to re-skill for the jobs of the future, which is encouraging.

"Every business needs to be more systematic about innovation. Many of the jobs of the future haven't been invented yet. People need the chance to play with and explore new technology, and work out new ways to use it. Problem-solving is a very human skill."

Success personified in the Fourth Industrial Revolution: Four leadership personas for an era of change and uncertainty

The global research also identified four types of leaders who are thriving in a technology-disrupted world:

- **Social Supers** are leaders who consider societal initiatives fundamental to their businesses. They have figured out how to 'do well by doing good.' They generate new revenue streams by developing or changing products or services to be more socially conscious, and they believe societal initiatives, more often than not, contribute to their profitability.
- **Data-Driven Decisives** are confidently leading their organisations in Industry 4.0, taking a methodical approach to strategy development and using clearly defined decision-making processes that incorporate data-driven insights.
- **Disruption Drivers** invest in new technologies to disrupt the market. These leaders are more likely to feel ready to lead in Industry 4.0, and take an assertive, hands-on approach to leadership. Disruption Drivers have holistic decision-making processes, a rolled-up-sleeves approach to talent and a comfort with the unknown.
- **Talent Champions** are leaders who understand their organisation's skills needs, and believe they currently have the correct workforce composition. Talent Champions are embracing the responsibility to train their employees with a proactive approach, while emphasising society and ethics.

The Deloitte research shows that these personas are contagious, and they often share a number of characteristics that might offer lessons for those still trying to define their approaches, including:

- A commitment to doing good
- Clearer vision on the path forward
- Longer-term lens on technology investments
- Taking the lead on workforce development.

"While there is no one single recipe for success in how to deal with rapid industrial transformation, it can be helpful to understand how certain leaders are approaching this ever-changing environment," said Robert Hillard. "Organisations with leaders who embody the characteristics of the Industry 4.0 personas – commitment to do good; defined, data-driven decision-making; bold, longer-term vision of technology; and being aggressive about workforce development – are poised to survive and thrive."

For more information and to view the full research results, read the **global report**.

Ombudsman to review historical cases of small business disputes with ATO

The Australian Small Business and Family Enterprise Ombudsman, Kate Carnell will look into historical cases where a small business is disputing an assessment by the Australian Taxation Office (ATO) and the ATO has commenced early action to recover the debt.

At the request of the Minister for Small and Family Business, Skills and Vocational Education, Michaelia Cash, the Ombudsman will provide advice on the scale and extent of the problem for small businesses and the potential impact on them.

“Overzealous early debt recovery by the ATO can be a small business killer,” Ms Carnell said.

“Our research last year into unfair treatment by the ATO found serious system-wide issues impacting the small business sector, including early debt recovery.

“We heard from a number of small businesses devastated financially from this practice, which is made all the worse if the ATO gets it wrong.

“Our focus for this research will be on historical cases and won’t include cases currently before the Administrative Appeals Tribunal.

“The work behind this task will support the operations of our newly established Small Business Concierge Service, which began on 1 March.

“The Concierge Service provides assistance and support to small business owners appealing an ATO tax decision through the Administrative Appeals Tribunal and legal advice for unrepresented small businesses.

“Ensuring small businesses have access to justice, particularly where there is an imbalance of power, affords the opportunity to compete on a level playing field.”

Regional Office and Branch News

Vietnam branch hosted a workshop on Large Data Analysis in Corporate Governance

On the morning of 21/10/2018, *AFA Research & Education* together with CMA Australia successfully organized the seminar Big Data for Business Management Workshop on "Large Data Analysis in Corporate Governance". It was an extremely successful event, where Members and associates of ICMA Australia received their membership certificates.

CMA Australia's members and associates receive the certificate with the speaker Phan Le Thanh Long

ICMA Indonesia Branch Business Forum 2019

ICMA Indonesia Branch had a successful business forum on 16 Feb 2019 at the IPMI Business School titled, “How to Successfully Recruit at the Senior and Executive Level”. Topics discussed were Strategy Success in Recruitment, Salary Outlook and a Networking Session. Participants were at the President Director, CEO, CFO, Finance Director, Senior Finance Manager, Finance Controller, Head of Finance, Finance Manager, Accounting and Tax Manager, Consultant and Professional Finance who participated from various industries in Indonesia.

The event was in collaboration with Michael Page Indonesia – Executive Headhunter and sponsored by IPMI Business School. The speaker was Pak Monico Lim, Associate Director from Michael Page Indonesia and Moderator was Pak Iman Subekti, the Vice President of ICMA Indonesia Branch. There is a lot of great talent for Senior Executive Finance level positions that can be drawn from members of ICMA Indonesia, and many were approached by Michael Page Indonesia. It was a very good networking professional finance event.

Mr. Daniel Godwin Sihotang, ICMA Indonesia Branch President with Pak Monico Lim, Associate Director from Michael Page Indonesia.

Participants at the ICMA Indonesia Branch Business Forum 2019 at the IPMI Business School.

CMA Program – Indonesia Regional Office

The 4th CMA intensive program organised by Dr Ana Sopanah of *Inspire Consulting*, was conducted at *Ciputra Hotel*, in Jakarka, Indonesia on Feb 4 -10, 2019. The program was facilitated by Professor Janek Ratnatunga, the CEO of ICMA Australia and Dr Chris D'Souza, ICMA COO/CFO.

Participants of the 4th CMA Intensive Program with Prof Janek Ratnatunga, ICMA CEO, Dr Ana Sopanah of Inspire Consulting who organised the event; and Dr Chris D'Souza, ICMA COO/CFO

Prof Janek Ratnatunga, ICMA CEO with Dr Ana Sopanah and Ibu Rere of Inspire Consulting who organised the event.

CMA Events Calendar

- January 12 – March 30, 2019: 45th CMA Preparatory Program, conducted by Business Sense Inc, Manila, Philippines.
- February 3-9, 2019, 4th CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting.
- March 4-6 & March 10-13, 2019: the 1st CMA Train-the-Trainer Program, conducted by Workplace Skills Development Academy (WSDA), Dhaka, Bangladesh.
- March 6-13, 2019: the 1st CMA Train-the-Trainer Program, conducted by STRACC Learning LLP in Bangalore, India.
- March 16-24, 2019: CMA Preparatory Program, Academy of Finance, Colombo, Sri Lanka.
- April 20-22 & April 24-27, 2019: 25th CMA Preparatory Program, SMART Education Group, Dubai, UAE.
- May 4 – July 20, 2019: 46th CMA Preparatory Program, conducted by Business Sense Inc, Manila, Philippines.
- May 9-11 & 14-15 & 17-18, 2019: the 1st CMA Train-the-Trainer Program, conducted by Ra-Kahng Associates Ltd, Bangkok, Thailand.
- May 13-15 and May 18-21, 2019: 7th CMA Preparatory Program, Ruwan Hulugalle and Company, Phnom Penh, Cambodia.
- May 27-29, 2019: Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore.
- July 18-19, 2019: Certificate of Proficiency in Strategic Analysis (SBA part 1), SMU Academy, Singapore.
- Sept 2-3, 2019: Certificate of Proficiency in Driving Business Value (SBA part 2), SMU Academy, Singapore.
- September 7 – November 20, 2019: 47th CMA Preparatory Program, conducted by Business Sense Inc, Manila, Philippines.

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Syme Business School, Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Business Sense, Inc. , Philippines

HBS for Certification and Training, Lebanon

SMART Education Group, UAE

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

TOP Academy, East Malaysia

Segal Training Institute, Iran

Ruwan Hulugalle & Co., Mekong Delta (Cambodia, Thailand, Myanmar)

PT Angka Bisnis Indonesia (Business Number Consulting), Indonesia

Inspire Consulting, Indonesia

ManAcc Consulting, New Zealand

STRACC Learning LLP, India

Workplace Skills Development Academy (WSDA), Bangladesh

Ra-Kahng Associates Ltd, Thailand

Academy of Management Accountancy, Nepal

Singapore Training Institute, Singapore

Blue Globe Inc, Japan

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