FinTech regulatory developments in the second quarter

IOSCO: consultation on AI/ML guidance for market intermediaries and asset managers

On 25 June 2020, IOSCO issued a consultation report on *The Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers*. The use of these technologies may benefit firms and investors, such as by increasing execution speed and reducing the cost of investment services. However, it may also create or amplify risks, potentially undermining financial market efficiency and causing harm to consumers and other market participants. In 2019, the IOSCO Board identified AI and ML as an important priority. The report proposes six measures to assist IOSCO members in creating appropriate regulatory frameworks to supervise market intermediaries and asset managers that use AI and ML. The deadline for responses is 26 October 2020.

BIS: central banks and payments in the digital era

On 24 June 2020, the BIS published a special chapter on *Central Banks and Payments in the Digital Era* of its Annual Report. Central banks play a pivotal role in maintaining the safety and integrity of the payment system. They provide the solid foundation by acting as guardians of the stability of money and payments. The pandemic and resulting strain on economic activity around the world have confirmed the importance of central banks in payments. Digital innovation is radically reshaping the provision of payment services. Central banks are embracing this innovation. They promote interoperability, support competition and innovation, and operate public infrastructures - all essential for easily accessible, low-cost and high-quality payment services. Central banks, as critical as ever in the digital era, can themselves innovate. In particular, central bank digital currencies (CBDCs) can foster competition among private sector intermediaries, set high standards for safety and risk management, and serve as a basis for sound innovation in payments.

ESMA: consultation on draft guidelines on outsourcing to cloud service providers

On 3 June 2020, ESMA published its consultation paper on *Guidelines on Outsourcing to Cloud Service Providers*. The purpose of these draft guidelines is to provide guidance on the outsourcing requirements applicable to firms where they outsource to cloud service providers. These draft guidelines are intended to help firms identify, address and monitor the risks that may arise from their cloud outsourcing arrangements (from making the decision to outsource, selecting a cloud service provider, monitoring outsourced activities to providing for exit strategies). The deadline for responses is 1 September 2020. ESMA aims to publish the Final Report on the Guidelines by Q1 2021.

IOSCO: consultation on outsourcing principles to ensure operational resilience

On 28 May 2020, IOSCO launched a consultation on *Outsourcing Principles to Ensure Operational Resilience*. IOSCO prepared this report before the COVID-19 outbreak. However, on 8 April 2020, the IOSCO Board agreed to delay publication of its reports to allow firms and financial institutions to redirect their resources to focus on the challenges arising from the pandemic. As the initial stages of this crisis pass, the IOSCO Board has decided to publish this report now because the outbreak of COVID-19 has highlighted the need to ensure resilience in operational activities and to maintain business continuity in situations where both external and often unforeseen shocks impact both firms and their service providers. The consultation period will end on 1 October 2020.

ECB: a regulatory and financial stability perspective on global stablecoins

On 5 May 2020, the ECB published its Macroprudential Bulletin (Issue 10) on *A Regulatory and Financial Stability Perspective on Global Stablecoins.* Stablecoins with the potential for global reach ("global stablecoins") could help to address unmet consumer demand for payment services that are fast, cheap and easy to use and can operate across borders. Stablecoins provide an alternative to volatile

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crypto-assets. Depending on their asset management function, they may fall under different regulatory regimes or – with certain design features – under none at all. Given their potential size, global stablecoins could pose risks to financial stability. Such arrangements need a robust regulatory framework.

Saudi G20 Presidency and BIS: launch of G20 TechSprint Initiative

On 29 April 2020, the Saudi G20 Presidency and BIS Innovation Hub launched the G20 TechSprint initiative to highlight the potential for new technologies to resolve regulatory compliance (RegTech) and supervision (SupTech) challenges. The BIS Innovation Hub, through its Singapore Centre, and the Saudi G20 Presidency have published high-priority RegTech/SupTech operational problems and invite private firms to develop innovative technological solutions. The problem statements identify challenges in regulatory reporting, analytics, and monitoring and supervision, and have been developed from submissions received from Financial Stability Board (FSB) member jurisdictions. Selected participants will be invited to present their proposals in a virtual TechSprint Touchpoint workshop for national authorities and other stakeholders in July 2020.

World Bank: how regulators respond to FinTech: evaluating the different approaches – sandboxes and beyond

On 24 April 2020, the World Bank published the paper *How Regulators Respond To FinTech: Evaluating the Different Approaches – Sandboxes and Beyond*. This paper provides an overview of different regulatory approaches to FinTech and provides guidance for policymakers to understand the benefits and limitations of each. While some FinTech activities can often be covered within existing regulatory frameworks, the majority of jurisdictions are taking or planning to take additional regulatory measures to respond to emerging FinTech services, the scope and scale of which vary substantially including new laws, Innovation Offices, Regulatory Sandboxes and even reskilling to respond to transforming environment. The report provides context on the relative appropriateness of each approach within jurisdictions, including relevant variables for consideration, and uses country case studies where appropriate to showcase and enable policy makers to draw from lessons learned across the globe.

World Bank: how countries can expand access to digital financial services

On 22 April 2020, the World Bank released a *report on Digital Financial Services*. Powered by FinTech, digital financial services have the potential to lower costs by maximizing economies of scale, to increase the speed, security and transparency of transactions and to allow for more tailored financial services that serve the poor. This report describes the tools of digital finance, the successful business models and policies for encouraging their growth. It explores risks and challenges of new types of services and the legal and regulatory frameworks needed for confronting them. Finally, it includes country experiences with promoting the expansion of digital financial services and the obstacles along the way.

FSB: consultation on effective practices for cyber incident response and recovery

On 20 April 2020, the FSB published a consultation report on *Effective Practices for Cyber Incident Response and Recovery*. The toolkit of effective practices aims to assist financial institutions in their cyber incident response and recovery activities. Cyber incidents pose a threat to the stability of the global financial system. In recent years, there have been a number of major cyber incidents that have significantly impacted financial institutions and the ecosystems in which they operate. A major cyber incident, if not properly contained, could seriously disrupt financial systems, including critical financial infrastructure, leading to broader financial stability implications. The toolkit lists 46 effective practices, structured across seven components: governance, preparation, analysis, mitigation, restoration, improvement, coordination and communication. The deadline for responses is 20 July 2020.

BIS-IFC: computing platforms for big data analytics and artificial intelligence

In April 2020, the Irving Fisher Committee on Central Bank Statistics published a report on *Computing Platforms for Big Data Analytics and Artificial Intelligence*. Public authorities, and central banks in particular, are increasingly realising the potential of big data sets and analytics – with the development of artificial intelligence (AI) and machine learning (ML) techniques – to provide new, complementary statistical information (Hammer et al (2017)). Yet the question remains: how should institutions organise themselves to benefit the most from these opportunities? Two areas appear particularly important for central banks. The first is how to organise their statistical information in relation to their IT infrastructure. The second is to think strategically as to how to use appropriate techniques to further process and analyse the new information collected.

FSB: consultation on regulatory, supervisory and oversight recommendations for "global stablecoin" arrangements

On 14 April 2020, the FSB published for consultation *10 High-Level Recommendations to Address the Regulatory, Supervisory and Oversight Challenges raised by Global Stablecoin Arrangements*. So-called "stablecoins", like other crypto-assets, have the potential to enhance the efficiency of the provision of financial services, but may also generate risks to financial stability. The activities associated with "global stablecoins" and the risks they may pose can span across banking, payments and securities/investment regulatory regimes both within jurisdictions and across borders. These potential risks may change over time, and so challenge the effectiveness of existing regulatory, supervisory and oversight approaches. Ensuring the appropriate regulatory approach within jurisdictions across sectors and borders will therefore be important. The deadline for responses is 15 July 2020.

FSB: enhancing cross-border payments - stage 1 report to the G20

On 9 April 2020, the FSB released the *Stage 1 Report of the FSB's Project to Develop a Roadmap to Enhance Cross-Border Payments*. Enhancing cross-border payments is a G20 priority during the Saudi Arabian Presidency. Faster, cheaper, more transparent and more inclusive cross-border payment services, including remittances, would have widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development and financial inclusion. Enhancing cross-border payments requires addressing frictions in existing cross-border payment processes. These frictions include: fragmented data standards or lack of interoperability; complexities in meeting compliance requirements, including for anti-money laundering and countering the financing of terrorism (AML/CFT), and data protection purposes; different operating hours across different time zones; and outdated legacy technology platforms.

CPMI/WB: payment aspects of financial inclusion in the FinTech era

On 9 April 2020, the Committee on Payments and Market Infrastructures (CPMI) and the World Bank released the report *Payment Aspects of Financial Inclusion in the FinTech Era*. The report builds on the guidance on Payment aspects of financial inclusion (PAFI), issued by the CPMI and the World Bank in 2016. The new report shows that FinTech can be used to underpin access and usage of transaction accounts. Yet it is not without challenges, and if risks are not properly managed, they can undermine financial inclusion. Payment aspects of financial inclusion in the FinTech era sets out key actions, helping the relevant stakeholders to strike the right balance between increasing efficiency and ensuring safety.

Contacts: Gabriel Callsen and Rowan Varrall
gabriel.callsen@icmagroup.org
rowan.varrall@icmagroup.org