**FinTech regulatory developments**

**BIS Quarterly Review: widening divergences in markets**

On 23 September 2018, the BIS published its Quarterly Review which includes the following Fintech-related special features: *FinTech Credit Markets around the World: Size, Drivers and Policy Issues* by Stijn Claessens, Jon Frost, Grant Turner and Feng Zhu. FinTech credit has grown rapidly around the world in recent years, but its size still varies greatly across economies. Differences reflect economic development and financial market structure: the higher a country’s income and the less competitive its banking system, the larger is FinTech credit activity. FinTech credit volumes are also greater in countries with less stringent banking regulation.

**Regulating Cryptocurrencies: Assessing Market Reactions** by Raphael Auer and Stijn Claessens. Cryptocurrencies are often thought to operate out of the reach of national regulation, but in fact their valuations, transaction volumes and user bases react substantially to news about regulatory actions. The impact depends on the specific regulatory category to which the news relates: events related to general bans on cryptocurrencies or to their treatment under securities law have the greatest adverse effect, followed by news on combating money laundering and the financing of terrorism, and on restricting the interoperability of cryptocurrencies with regulated markets.

**BIS Markets Committee: monitoring of fast-paced electronic markets**

On 17 September 2018, the BIS Markets Committee published the report, *Monitoring of Fast-paced Electronic Markets*, which analyses major developments in the evolution of market structure and their implications for central banks. The report, prepared by a study group led by Imène Rahmouni-Rousseau (Bank of France) and Rohan Churm (Bank of England), highlights three key structural trends: (i) Trading is increasingly fragmented across a range of new venues, while the frequency of activity and speed of information flows have accelerated significantly, especially in foreign exchange markets. (ii) Liquidity provision has become more concentrated among the largest banks, as smaller players resort to an agency model of market-making or exit the business altogether. At the same time, a new set of non-bank intermediaries, most notably principal trading firms, have strengthened their positions. (iii) Greater electronification has led to the commoditisation of large quantities of high-frequency data. The report points to an overall trend among central banks towards greater usage of high-frequency, transaction-level data. Monitoring market conditions in near time using such data can support monetary policy implementation and foreign exchange reserves management.

**IOSCO: payment, clearing and settlement operators meet on global cyber resilience**

On 14 September 2018, key global and regional payment, clearing and settlement operators met at a roundtable in Paris to discuss cyber-security and the resilience of financial market infrastructures (FMIs) and the wider market ecosystem. Senior executives, together with financial authorities, discussed continued collaboration and preparation for and responses to cyber-incidents, with a particular focus on cross-border actions. The meeting, hosted by the Bank of France, was convened by the...
international standard-setting bodies for FMIs, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), who issued guidance on cyber-resilience in 2016.

**ESMA: financial innovation and product trends**

On 6 September 2018, ESMA published its latest *Trends, Risks, and Vulnerabilities (TRV) Report* (No 2, 2018). With this TRV, ESMA starts publishing its on-going monitoring of financial innovation and product trends. FinTech continues to drive innovation in financial services, with potentially far-reaching consequences for both end users and service providers. Virtual Currencies (VCs) and Initial Coin Offerings (ICOs) have been the focal point of attention recently because of the massive cash inflows that they have attracted. Yet other applications of the Distributed Ledger Technology (DLT) and RegTech are also witnessing interesting developments. With this TRV, ESMA starts publishing its on-going monitoring of financial innovation and product trends. This new section outlines how these innovations, and various others such as crowdfunding and VIX Exchange-Traded Notes (ETNs), score on ESMA's innovation scoreboard, and discusses the main recent market and regulatory developments around them (pages 24-30).

**FCA: creation of the Global Financial Innovation Network (GFIN)**

On 7 August 2018, the Financial Conduct Authority (FCA) has, in collaboration with 11 financial regulators and related organisations, announced the creation of the Global Financial Innovation Network (GFIN), building on the FCA's proposal earlier this year to create a 'global sandbox'. The network will seek to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. It will also create a new framework for co-operation between financial services regulators on innovation related topics, sharing different experiences and approaches. The collaborative effort, involving regulators from around the world, has also launched a consultation on the role the GFIN should play in delivering its objectives, including the tools it will use. The consultation is open until 14 October 2018.

**FSB report: framework to monitor crypto-asset markets**

On 16 July 2018, the Financial Stability Board (FSB) published a report delivered to the G20 Finance Ministers and Central Bank Governors on the work of the FSB and standard-setting bodies on crypto-assets. For its part, the FSB has developed a framework, in collaboration with Committee on Payments and Market Infrastructures (CPMI), to monitor the financial stability implications of developments in crypto-asset markets. The report sets out the metrics that the FSB will use to monitor crypto-asset markets as part of its ongoing assessment of vulnerabilities in the financial system. While the FSB believes that crypto-assets do not pose a material risk to global financial stability at this time, it recognises the need for vigilant monitoring in light of the speed of market developments. The monitoring framework focuses on the transmission channels from crypto-asset markets that may give rise to financial stability risks.

**BIS Financial Stability Institute: innovative technology in financial supervision**

On 16 July 2018, the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) published a report on innovative technology in financial supervision (suptech) – the experience of early users. Financial supervisors can harness the same innovative technologies that are driving fintech developments. Such so-called suptech applications can be found in the areas of data collection and analysis. The experience of early users suggests that suptech can enhance supervisory effectiveness, cut costs and improve capabilities. However, suptech also raises challenges that include increased operational risks, as well as data, resource and legal issues. This paper outlines the experiences of early users and highlights specific considerations that could help supervisory agencies take advantage of suptech developments.

**EBA: risks and opportunities from FinTech and its impact on incumbents’ business models**

On 3 July 2018, the EBA published the first products of its FinTech Roadmap, namely (i) a thematic report on the impact of FinTech on incumbent credit institutions’ business models and (ii) a thematic report on the prudential risks and opportunities arising for institutions from FinTech. The report sets out five factors that might significantly affect incumbents’ business models from a sustainability perspective: (i) digitalisation/innovation strategies pursued to keep up with the fast-changing environment, (ii) challenges arising from legacy ICT systems, (iii) operational capacity to implement the necessary changes, (iv) concerns over retaining and attracting staff and (v) increasing risk of competition from peers and other entities. The report concurs that currently the predominant type of relationship between incumbents and FinTech is partnership with FinTech firms, which is considered a “win-win” situation.

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