



FinTech regulatory developments

by Gabriel Callsen

BIS Annual Economic Report (AER): Cryptocurrencies: looking beyond the hype

On 17 June 2018, the BIS published its Annual Economic Report (AER), a new title launched this year. In a special chapter on [cryptocurrencies](#), the BIS argues that the decentralised technology underpinning private digital tokens is no substitute for tried and trusted central banks. Cryptocurrencies promise to replace trusted institutions with distributed ledger technology. Yet, looking beyond the hype, it is hard to identify a specific economic problem which they currently solve. Transactions are slow and costly, prone to congestion, and cannot scale with demand. The decentralised consensus behind the technology is also fragile and consumes vast amounts of energy. Still, distributed ledger technology could have promise in other applications. Policy responses need to prevent abuses while allowing further experimentation.

IMF Working Paper: Cyber Risk for the Financial Sector: A Framework for Quantitative Assessment

On 22 June 2018, the IMF [published](#) a staff working paper (No. 18/143) which presents a novel documentation of cyber risk around the world for financial institutions by analysing the different types of cyber incidents (data breaches, fraud and business disruption) and identifying patterns using a variety of datasets. The other novel contribution that is outlined is a quantitative framework to assess cyber risk for the financial sector. The framework draws on a standard VaR

type framework used to assess various types of stability risk and can be easily applied at the individual country level. The framework is applied in this paper to the available cross-country data and yields illustrative aggregated losses for the financial sector in the sample across a variety of scenarios ranging from 10% to 30% of net income.

IMF: Expansion of the Fund's High Level Advisory Group on Finance and Technology

On 1 June 2018, the IMF [announced](#) the expansion of the Fund's High Level Advisory Group on Finance and Technology, to strengthen the representation of national authorities and international organizations. The group is composed of 19 members who are highly-experienced experts and respected leaders in the field of finance and technology, including industry pioneers, officials from national authorities and international organizations, lawyers and academics. The IMF is responding to growing interest from its member countries in the opportunities and challenges arising from technological innovation in the financial sector.

EC FinTech Action Plan: First meeting of the EU FinTech Lab

On 20 June 2018, the EU FinTech Lab [met](#) for the first time in Brussels. The focus of the session was outsourcing to cloud in the banking and insurance sectors. Following the adoption of the [FinTech Action Plan](#) for a more competitive and innovative European financial sector by the European Commission in



ESMA continues to monitor market developments around DLT and looks into whether a regulatory response may become necessary following the publication of its report in February 2017.

March 2018, the Commission has established an [EU FinTech Lab](#) to raise the level of regulatory and supervisory capacity and to share knowledge about new technologies. This is a training opportunity for regulators and supervisors, who will meet multiple technology providers to address regulatory and supervisory concerns and to explain the technologies behind the relevant products and services.

ESMA response to EC consultation on FinTech

On 7 June 2018, ESMA sent its [response](#) to the European Commission consultation paper on *FinTech: A More Competitive and Innovative Financial Sector*, welcoming the initiative to conduct a stock-take of the EU's FinTech industry. With regard to distributed ledger technology (DLT), ESMA continues to monitor market developments around DLT and looks into whether a regulatory response may become necessary following the publication of its report in February 2017. Regarding the role of regulation and supervisors, ESMA believes that entities providing the same service should be regulated and supervised on an equal foot. However, Fintech start-ups might benefit from regulatory advice to navigate the applicable legal framework.

EU Blockchain Observatory and Forum: Announcement of two working groups

On 18 May 2018, the European Blockchain Observatory and Forum, which was launched in February 2018, [announced](#) the formation of two Working Groups that will explore critical themes in blockchain in Europe, as well as its first European

blockchain workshop. The Blockchain Policy and Framework Conditions Working Group will look at cross-technology and cross-industry issues to define the policy, legal and regulatory conditions needed to promote the regulatory and legal predictability necessary for larger-scale deployment of blockchain applications. The Use Cases and Transition Scenarios Working Group will focus on the most promising transformative blockchain use cases with an emphasis on public sector applications such as identity and government services, health care, energy and environmental reporting.

ECB publication of European framework for testing financial sector resilience to cyber attacks

On 2 May 2018, the ECB [published](#) the so-called [European Framework for Threat Intelligence-based Ethical Red Teaming \(TIBER-EU\)](#), which is the first Europe-wide framework for controlled and bespoke tests against cyber attacks in the financial market. The TIBER-EU framework has been designed for national and European authorities and entities that form the core financial infrastructure, including entities with cross-border activities which fall within the regulatory remit of several authorities. TIBER-EU based tests simulate a cyber attack on an entity's critical functions and underlying systems, such as its people, processes and technologies. This helps the entity to assess its protection, detection and response capabilities against potential cyber attacks.

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