FinTech regulatory developments in the third quarter

EC: digital finance package including digital finance strategy and legislative proposals

On 24 September 2020, the European Commission adopted a digital finance package, including a digital finance strategy and legislative proposals on crypto-assets and digital resilience, for a competitive EU financial sector that gives consumers access to innovative financial products, while ensuring consumer protection and financial stability. The package supports the EU's ambition for a recovery that embraces the digital transition. Digital financial services can help modernise the European economy across sectors and turn Europe into a global digital player.

ECB: implications of stablecoins

On 22 September 2020, the ECB Crypto-Assets Task Force released its paper on *Stablecoin: Implications for Monetary Policy, Financial Stability, Market Infrastructure and Payments, and Banking Supervision in the Euro Area*. Recent initiatives may stimulate the adoption of stablecoins and raise implications for public policy, regulation, oversight and supervision. The general principle "same business, same risks, same rules" should guide regulatory efforts to ensure a level playing field and prevent regulatory arbitrage. Further work may be necessary for international standard setting bodies to address emerging risks. This may include, for example, developing an appropriate accounting and prudential treatment. Given the global nature of stablecoin arrangements, an EU regulatory approach cannot be developed in isolation, but should be informed by ongoing efforts of standard setting bodies.

BIS: FinTech and big tech credit: a new database

On 21 September 2020, BIS published its paper on *FinTech and Big Tech Credit: a New Database*. The paper finds that, in 2019, FinTech and big tech credit (together "total alternative credit") reached nearly USD800 billion globally. Big tech credit has shown particularly rapid growth in Asia (China, Japan, Korea and Southeast Asia), and some countries in Africa and Latin America. It also finds that alternative forms of credit are more developed where the ease of doing business is greater, investor protection disclosure and the efficiency of the judicial system are more advanced, the bank credit-to-deposit ratio is lower, and where bond and equity markets are more developed. Overall, both FinTech and big tech credit seems to complement other forms of credit, rather than substitute for them, and may increase overall access to credit.

IOSCO: measures to reduce conflict of interests in debt capital raising

On 21 September 2020, the Board of the International Organization of Securities Commissions (IOSCO) published final guidance to help its members address potential conflicts of interest and associated conduct risks market intermediaries may face during the debt capital raising process. The guidance also seeks to address some specific concerns observed by certain regulators during the COVID-19 crisis that may affect the integrity of the capital raising process. The report also explores the potential benefits and risks of blockchain technology in addressing conflicts of interest in the debt capital raising process.

EU Parliament: digital finance study on emerging risks in crypto-assets

On 14 September 2020, the EU Parliament published its study on *Emerging Risks in Crypto-Assets*, covering regulatory and supervisory challenges in the area of financial services, institutions and markets. The study is broken into six parts: The study (i) describes the current state of play and the underlying organisation of the crypto-assets market, how DLT is designed, how the crypto-assets market is structured and its current significance in the financial sector; (ii) describes the main current regulatory issues in the crypto-assets market; (iii) defines more precisely the scope and policy context of this assessment; (iv) further explains why EU action is needed, by identifying the gaps in the existing EU regulatory and legislative framework; (v) presents the main policy options under discussion to address the existing gaps; and finally (vi) conducts a thorough comparative economic analysis of the EAVA of the policy options identified.

EU Commission: survey on the use of technologies based on artificial intelligence

On 11 September 2020, the EU Commission published its report *European Enterprise Survey on the Use of Technologies based on Artificial Intelligence*. The survey reached a total of 9,640 enterprises in January-March 2020 and measured five KPIs: AI awareness, AI adoption, AI sourcing, external and internal obstacles to AI adoption. Awareness of AI is high across the EU (78%). Four in ten (42%) enterprises have adopted at least one AI technology, 25% have adopted at least two. While 18% have plans to adopt AI in the next two years, 40% have neither adopted AI nor plan to do so. Adoption at the level of each technology is still relatively low: from 3% for sentiment analysis to 13% for anomaly detection and process/equipment optimisation.

BIS: data vs collateral and implications of the use of big tech credit on collateral in credit markets

On 1 September 2020, the BIS published its working paper on *Data vs Collateral, Highlighting Implications of the Use of Big Tech Credit on Collateral in Credit Markets*. The paper compares how credit from a big tech firm and traditional bank lending correlate with local economic activity, house prices and firm-specific characteristics. It is based on a unique random sample of more than two million Chinese firms that received credit from both an important big tech firm (Ant Group) and traditional commercial banks. The paper also asks how the increased use of big data instead of collateral could affect how the provision of credit responds to collateral values. This "financial accelerator mechanism" has historically amplified the effects of financial market developments and asset prices on the real economy.

BIS: regulating FinTech financing: digital banks and FinTech platforms

On 27 August 2020, the BIS Financial Stability Institute published its paper on *Regulating Fintech Financing: Digital Banks and FinTech Platforms*. A host of new technology-enabled business models for deposit-taking, credit intermediation and capital raising have emerged in recent years. In particular, the proliferation of digital banking and financing via web-based platforms (FinTech balance sheet lending and crowdfunding) raises the question of where the regulatory perimeter should be drawn. Financial authorities now face the task of deciding whether their regulatory framework needs to be adjusted to account for these new fintech activities. To do so, they will need to consider a number of elements. The paper explores how digital banking and FinTech platform financing are regulated and provides a cross-country overview of the regulatory requirements for FinTech activities in 30 jurisdictions.

ECB: response to EC consultation a new digital finance strategy for Europe/FinTech Action Plan

On 27 August 2020, the ECB published the ESCB/European banking supervision response to the European Commission's consultation on *A New Digital Finance Strategy for Europe/FinTech Action Plan*. The ECB broadly supports the priority areas identified by the European Commission in the consultation document to foster the development of digital finance in the EU, which have gained further in importance in the light of the recent coronavirus (COVID-19) pandemic crisis, namely: (1) ensuring that the EU financial services regulatory framework is fit for the digital age; (2) enabling consumers and firms to reap the opportunities offered by the EU-wide Single Market for digital financial services by removing fragmentation; (3) promoting a well-regulated data-driven financial sector for the benefit of EU consumers and firms; and (4) enhancing the digital operational resilience framework for financial services.

UNSG: harnessing digitalisation to finance a sustainable future

On 26 August 2020, UNSG's Task Force on Digital Financing of the Sustainable Development Goals published its report on *Harnessing Digitalisation to Finance a Sustainable Future*. The report highlights the potential for digitalization to catalyse a fundamental realignment of both public and private finance with the SDGs. The

Task Force offers an analysis of current developments and recommendations for action to establish a financial system that advances citizens' interests. The Task Force has catalysed a portfolio of pathfinder initiatives that exemplify ambitious action in implementing the recommendations.

BIS: rise of the central bank digital currencies

On 24 August 2020, the BIS released its Working Paper on *Rise of the Central Bank Digital Currencies: Drivers, Approaches and Technologies*. The paper finds that most projects originate in digitised and innovative economies, retail CBDC work is more advanced where the informal economy is larger, and none of the projects surveyed seeks to replace cash: all aim to offer a digital complement. On the technical designs, BIS finds that more central banks are considering "hybrid" or "intermediated" architectures, where the CBDC is a cash-like direct claim on the central bank but the private sector manages all customer-facing activity. Only a few jurisdictions are considering "direct" designs, in which the central bank takes on some or all of the customer-facing side of payments. At present, no central bank reports that it is pursuing a "synthetic" or "indirect" CBDC design. While central banks are considering various technical infrastructures, current proofs-of-concept tend to be based on distributed ledger technology rather than conventional infrastructure.

Saudi G20 presidency and BIS: update on G20 TechSprint initiative

On 10 August 2020, the Saudi G20 Presidency and BIS Innovation Hub published its update on the progress made in the G20 TechSprint initiative. The G20 TechSprint initiative, launched in April 2020, aims to highlight the potential for technologies to resolve regulatory compliance (regtech) and supervisory (suptech) challenges. The event on 6-7 August allowed the shortlisted teams to demonstrate their solutions to a panel of independent judges and receive feedback before the final judging, scheduled for October 2020. The mid-point review allowed the shortlisted firms, selected from a pool of 128 submissions from 35 countries, to further refine their solutions before the winners are selected.

BCBS: consultations on operational risk and operational residence

On 6 August 2020, the Basel Committee released consultative documents on *Principles for Operational Resilience* and *Revisions to the Principles for the Sound Management of Operational Risk*. Recognising that a concerted operational resilience effort may not prevent a significant shock resulting from a specific hazard, the Committee seeks comment on proposed principles for operational resilience that aim to mitigate the impact of potentially severe adverse events by enhancing banks' ability to withstand, adapt to and recover from them. The Committee is of the view that operational resilience is also an outcome of effective operational risk management. Given this natural relationship between operational resilience and operational risk, the Committee is proposing updates to its principles for the sound management of operational risk (PSMOR). Responses are due by 6 November 2020.

OECD: AI national policies for the G20 digital economy task force

On 24 July 2020, the OECB published its report on *Examples of AI in National Policies for the G20 Digital Economy Task Force*. The report sets out rationales for action on each of the G20 AI Principles and details relevant examples of national strategies and innovative policy practices for AI governance. The compilation drew on country survey responses or information for almost all G20 and guest countries, and on Digital Economy Task Force (DETF) discussions that took place in 2020 under the thematic dialogue on AI.

ECB: financial intermediation and technology: what's old, what's new?

On 3 July 2020, the ECB published its working paper on *Financial Intermediation and Technology: What's Old, what's New? (no 2438).* The report studies the effects of technological change on financial intermediation, distinguishing between innovations in information (data collection and processing) and communication (relationships and distribution). Both follow historic trends towards an increased use of hard information and less in-person interaction, which are accelerating rapidly. The report points to more recent innovations, such as the combination of data abundance and artificial intelligence, and the rise of digital platforms. It is argued that in particular the rise of new communication channels can lead to the vertical and horizontal disintegration of the traditional bank business model. Specialized providers of financial services can chip away activities that do not rely on access to balance sheets, while platforms can interject themselves between banks and customers. The authors discuss limitations to these challenges, and the resulting policy implications.

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