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HONG KONG, LONDON and WASHINGTON, 14 OCTOBER 2018 – The Global Financial Markets Association (GFMA) welcomes the UK Financial Conduct Authority (FCA) Global Financial Innovation Network (GFIN) Consultation Document.

Comments submitted electronically via: GFIN@fca.org.uk

Executive Summary

The GFMA¹ welcomes the opportunity to share our views on the Global Financial Innovation Network (GFIN) Consultation Document issued on 7 August 2018.

THE GFMA welcomes the GFIN initiative which displays significant foresight on the potential opportunities and risks of emerging technologies and innovation. The GFIN outlines an approach, potentially based on practical and tangible use cases, that could increase the knowledge and collaboration between industry participants and policy makers globally.

GFMA recognises the challenges associated with operating in more than one jurisdiction, such as diverging regulatory requirements and bilateral engagement with regional supervisors and regulators. The GFIN could help address these challenges, and has the potential to help multiple-jurisdictions, at large, enjoy the benefits of new technologies and offerings, while mitigating risks to the industry and consumers. The GFIN could also play an important role in identifying regulatory arbitrage, or divergence, in relation to emerging technologies and new business models, and suggest policy recommendations that would lead to increased coordination or consistency globally.

GFMA has identified the following recommendations for the GFIN in response to this consultation document:

- The initiative should be to increase efficiency, for all financial firms, and also potential partnerships of incumbents and new participants interacting with regulators;
- The broadest range of regulatory authorities should continue to be included to prevent fragmentation as regulatory sandboxes initiatives continue to be developed in multiple key jurisdictions and regions. This will help to set a baseline and continuously increasing capabilities and skills across stakeholders and jurisdictions;
- The existing international engagements and regulatory sandbox cooperation agreements and tools currently in place should be leveraged into the GFIN, where appropriate, to help develop a larger formal network and reduce re-work of existing initiatives;
- The principal aim of the GFIN should be to input directly into existing relevant regional and global forums and activities, rather than act as an additional forum;
- The GFIN should not impact the flexibility and pace at which jurisdiction specific initiatives can continue to be undertaken or develop, or create a 'bottleneck' for locally focused activities;
- The role of the GFIN in relation to existing international standard setting bodies should be clarified to avoid duplication or conflicting requirements on financial firms;
- Any future policy work and regulatory trials should focus on areas of industry-wide shared interest, common challenges or areas of diverging regulatory approaches (e.g. improving cross-border efficiency and standards, such as AML/KYC) to increase participation and the likely successful application of outcomes;
- The running of cross-border firm trials would be best suited where they can be completed with flexibility in mind (virtually or by entering the real market) and are focused on initiatives which have the broadest application and appeal to all involved regulators and participating stakeholders. Both cohort or rolling approaches for trials

¹The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit <http://www.gfma.org>.

could be suitable based on a specific objective or need, noting that a rolling approach would provide reduced time to market.

Finally, the GFMA recommends that the overall terms of reference and governance model for the GFIN is progressed as an initial priority, and in consultation with the industry. This will help to clarify;

- The rules and processes for regulatory members and other participant groups to meaningfully contribute (e.g. transparent criteria for selected participants and testing requirements);
- The role and intended interaction of the GFIN in relation to other local and global bodies, and what it will practically mean for firms having successfully completed GFIN trials;
- The specific goals and uses cases of what the GFIN aims to achieve (e.g. targeting new and innovative processes and addressing existing or legacy problems);
- The types of forums, working groups and information sharing proposed, and the availability for non-regulator stakeholders and groups to interact;
- The extent to which GFIN lessons learned could be shared with the wider community of firms and regulatory stakeholders.

GFMA would welcome the opportunity to discuss our response to this consultation document, to identify opportunities where we can support this important initiative and leverage our unique global reach as a future key participant in this initiative.

Q1: Do you agree with the proposed Mission Statement for the GFIN?

Overall, GFMA agrees with the proposed Mission Statement for the GFIN. GFMA believes that the proposal to increase the level of collaboration, knowledge sharing and cooperation between global regulators regarding innovation in financial services is a welcomed initiative, key in supporting the development and adoption of innovative ideas at scale. The GFIN seems to represent the required shift from regulators focusing on mere guidelines and policy facilitation and from being a facilitator towards proactively working with technology industry groups on setting standards. We agree with the core purpose of the GFIN mission statement to have a positive impact on financial integrity, consumer wellbeing and protection, financial inclusion, competition and financial stability. Increased cooperation between financial services regulators, industry participants and other standard setting organisations will be important to address the opportunities and challenges that emerging technologies and new business models present to the financial services industry.

However, GFMA believe that further clarity is required in the distinction and intended outcomes of the mission statement in relation to collaboration initiatives. Namely the difference between facilitating knowledge sharing and education between regulators or a wider network of participants (e.g. Innovation accelerators), and joint working on policy and regulatory requirements applied to innovative ideas (e.g. Sandboxes). This will impact the types of information and interaction that is required by financial firms and should be outlined in any future governance and operating model of the GFIN.

GFMA also believes that the GFIN initiative should be to increase efficiency for all financial firms interacting with regulators in relation to emerging technologies and new business models, rather than emphasising those which may be perceived as 'innovative'. This will ensure that any GFIN proposed activity in relation to policy recommendations continue to be applied consistently and fairly to all industry participants, ensuring a level playing field.

Q2: Do you agree with the three main proposed functions for the GFIN?

Overall, GFMA agrees with the three main proposed functions for the GFIN (namely: a. Network of regulators; b. Joint policy work and regulatory trials; and c. Cross-border experimentation of new ideas), as approaches that would support the aims of the mission statement.

GFMA has identified the following points in relation to each function proposed:

- a. Network of regulators

- GFMA believes that building on existing regulator bi-lateral co-operation agreements (e.g. Memorandum of Understanding or MoU), where they exist, would be beneficial in helping a formal GFIN network to develop, and leverage existing open dialogue and tools on innovation related topics.
 - The proposal for a steering group to oversee the network should include all regulatory authorities that are involved in the initiative to ensure representation of all jurisdictions. We recognise that not all GFIN discussions will be able to be shared based on sensitivities of the activities performed, however GFMA would suggest that as part of the groups governance regular updates are published externally where possible in order to maintain the open-dialogue and collaboration with the industry.
 - Further clarity is required on the proposal to focus on best practices for assessing the merit of financial innovation, and what this may mean for existing regulatory sandboxes or innovation accelerators, and how any criteria developed would be used. What constitutes financial innovation will largely depend on each jurisdictions market, regulatory environment, firms and clients.
 - The objective to work with existing international financial sector standard setting bodies and organisations² is welcomed, and the recognition that the GFIN should not replace or duplicate their role. However, it is not clear how the GFIN will compliment these existing bodies and what aspects of their work the GFIN will seek to build upon.
 - Based on the global role and maturity of each of the international bodies listed, we believe that the principle aim of the GFIN should be to input directly into existing relevant regional and global forums and activities, rather than act as an additional forum.
 - This will help to avoid any further duplication or fragmentation in technology innovation topics or related activities at the global level and create a clear distinction of the role and mandate of the GFIN versus the international bodies identified.
- b. Joint policy work and regulatory trials
- GFMA believes that the GFIN could play an important role in identifying areas of divergence and barriers in regulatory approaches, across jurisdictions, to emerging technologies (e.g. Cloud computing, DLT, Crypto Assets, AI, Digital identities, Data privacy) and new business models. Comparative market studies on common areas of interest to understand different regulatory approaches would be a welcomed initiative.
 - We recommend that any future GFIN policy work and regulatory trials should focus on keeping regulators updated of market developments. Uses cases should aim to identify and focus on areas of industry-wide shared interest or common challenges, improving cross-border efficiency and standards, such as AML/KYC.
 - This will help to maximise potential benefits, as long as continuous progress and tangible outcomes can be demonstrated, even where a narrower scope has been agreed.
 - GFMA believe it will be important that any potential policy recommendations or outcomes from the GFIN should continue to support the current technology-neutral approach many authorities are taking towards the regulation and supervision of innovation. Technology-neutral regulation will remain key for innovation to flourish in financial services.
- c. Cross-border firm trials
- GFMA believes that there are challenges associated with operating in more than one jurisdiction, such as diverging regulatory requirements or bilateral engagements required with regional supervisors and regulators. The GFIN proposed function for supporting cross-border firm trials could help reduce some of that burden for firms.
 - Broadly, GFMA would welcome cross-border firm trials of new technology opportunities if firms were able to test their potential solutions with flexibility in mind (virtually or entering the real market), using publicly available datasets, data provided by other firms within the sandbox or by the authorities of the jurisdictions involved.
 - Virtual cross-border firm trials would enable easier collaboration and cooperation between regulators located in different jurisdictions and be offered as a tool for innovators, irrespective of whether they are authorised in all jurisdictions involved. This could be an opportunity for firms and regulators to learn from the benefits and risks of a given technology: identifying regulatory challenges and envisaging appropriate safeguards to deploy solutions in each jurisdiction.

² Listed in the consultation document as: IOSCO, IAIS, BCBS, GIFCS.

- The GFIN could play an important role to inform regulatory authorities in potential areas of regulatory convergence based on cross-border firm trials. However, further clarity is required on the model proposed for this function, namely:
 - The role of minimum application criteria and how it would be applied at the global level;
 - The content required for initial trial plans and ongoing reporting requirements; and
 - What information would be published and shared following completion (into on-going relevant international forums, regulatory activities, or for the benefit of the wider community of firms and regulatory stakeholders).

Q3: What aspects/areas of regulation pose the biggest challenge when it comes to innovating?

GFMA believes that the following aspects of regulation pose challenges when considering innovation:

- Different approaches or inconsistency in regulatory, supervisory and licensing frameworks across jurisdictions;
- Consolidating prudential supervision rules affecting activities within the consolidated perimeter (including non-core business);
- Compliance with regulatory requirements such as data privacy rules or data localisation requirements (e.g. international considerations in personal data transfers); and
- The need to ensure adequate and consistent levels of knowledge and understanding of innovation subject matter, as well as a strong focus on continuous education, to help converge skill levels and performance across regulatory jurisdictions.

Q4: Do you see any reasons why this initiative may be counterproductive to the outcomes it is seeking to achieve?

Overall, GFMA believes that this initiative will be positive if it continues to encourage innovation while balancing the needs of policy, competition, risk and financial stability.

GFMA recommends the GFIN considers in its terms of reference identifying the type of regulatory frameworks or outcomes it aims to achieve. This will provide further clarity to participants on its role and engagement model as a regulatory sandbox or innovation hub (e.g. accelerator).

GFMA believe that a wider and formal network of regulators proposed for the GFIN should not inhibit the current flexibility and approaches each jurisdiction has in applying their own regulatory sandboxes or innovation accelerators. Equally, the GFIN should be careful not to impact the flexibility and pace at which jurisdiction specific initiatives can be undertaken, by creating a 'bottleneck' for locally focussed activities to take place. As such the GFIN would fulfil a knowledge sharing role, setting a baseline and continuously increasing capabilities and skills across stakeholders and jurisdictions.

GFMA believe that to support the GFIN to be productive it should continue to increase its global reach in order to be as broad and encompassing as possible, while focusing on discrete and tangible use cases. With regards to the current regional scope, it is essential to ensure close cooperation with additional regulatory bodies in Europe – on EU (e.g. EBA) as well as national level (e.g. BaFin, Prudential Regulation Authority – PRA). This would strengthen the acceptance of any GFIN recommendations and also prevent the creation of competitive imbalances. It will also be important for the GFIN to include (where possible) regulatory sandbox initiatives currently being developed by other authorities (for example, the EU Fintech Action Plan analysis and identification of best practices expected in Q4 2018, and the July 2018 US Treasury recommendation for Federal and State bank regulators to provide regulatory sandboxes to foster experimentation with innovate financial services). This will help to amplify the positive effects of information sharing and regulatory convergence that support the overall mission statement of the group.

Finally, the initiative should continue to promote a principles-based approach to future policy, avoiding prescriptive requirements, that could unintentionally impact innovation and emerging technologies.

Q5: Do you believe the issue of developing a best practice for regulators when assessing financial innovation should be a priority for the network? If not, what other priorities should the network first address?

GFMA supports the GFIN in creating a forum that enables collaboration between members for the advancement of financial innovation, fostering knowledge sharing, and setting a baseline and continuously increasing capabilities and skills across stakeholders and jurisdictions. A best practice for regulators, as long as applicable to discrete and tangible use cases, could help to align all involved GFIN stakeholders to a common approach, promote standardisation, and promote innovation within regulatory roles and objectives. To the extent information would be published and shared following completion, this could feed into on-going relevant international forums and regulatory activities, benefiting the wider community of firms and regulatory stakeholders.

However, as noted in Question 2 ('network of regulators'), further clarity is required on the intended outcome of a best practice for assessing the merit of financial innovation, and what this may mean for existing regulatory sandboxes or innovation accelerators.

Specifically, how any best practices would be used by the GFIN to assess applications for cross-border firm trials, and the extent to which they would form a criteria for acceptance supported by agreed upon metrics as means to measure success. What constitutes financial innovation will largely depend on each jurisdiction's market, regulatory environment, firms and clients. GFMA believe that a priority for the GFIN should be to identify and focus on regulatory areas of industry-wide shared interest, or common challenges, in improving cross-border efficiency and standards, such as AML/KYC.

Q6: Do you agree with the approach to involve global standard setting bodies as part of the GFIN? How else would you like to see these organisations involved?

GFMA agrees with the approach proposed for the GFIN to provide a connection to international financial sector standard setting bodies as part of its overall remit. Many of the emerging trends in financial services technology and innovation, and the increasing importance of cybersecurity, are increasingly global in nature. Increased cooperation between international bodies would be welcomed and particularly important for financial firms that operate across multiple jurisdictions. An example would be the use of common lexicon, that could help all involved parties to reduce interpretation, costs and risks associated with innovation and new technologies.

However, as noted in Question 2 ('network of regulators'), the GFIN should aim to set out a clear distinction of its role and mandate versus other international bodies to avoid duplication or conflicting outcomes in its work. The principle aim of the GFIN should be to input directly into existing relevant regional and global forums and activities, rather than act as an additional forum. Any duplication of conflict in relation to emerging policy and innovation at the global level could be counterproductive to the overall aims of the group and financial services firms. Having formal representation from international financial sector standard setting bodies in a steering or observation capacity would be beneficial to achieve this aim.

Q7: What kind of outcomes from the policy work and regulatory trials would your organisation benefit from?

GFMA welcomes the approach proposed that any outcomes from policy work or regulatory trials should be informed and shared with a broad range of stakeholders for consultation, supporting firms that aspire to operate in multiple jurisdictions through a "one-stop shop mechanism". Alignment, clarification and collaboration between regulators would be a positive encouragement for financial services firms to innovate and increase market efficiency.

GFMA believe that the global financial services industry would benefit from policy work and regulatory trials on initiatives that have the broadest range of participants and address a common challenge across jurisdictions. The examples identified in the consultation paper (AML, counter-terrorist financing, payments and cross border identify verification) would be positive areas of focus for the GFIN. The GFIN could help develop innovative ideas at scale and identify solutions to new or legacy industry issues that would benefit from a global forum.

A beneficial outcome would be the identification and recommendation to address any regulatory arbitrage related to the use of emerging technologies (specifically to promote coordination in current and future policy across jurisdictions for the use of these technologies). However, GFMA believe that any policy outcomes should continue to support the current technology-neutral approach many authorities are taking towards the regulation and supervision of innovation.

Technology-neutral regulation will remain key for innovation to flourish in financial services, and in this regard, GFMA supports recent policymakers' statements, such as from the European Commission, that policies should be "Technology-neutral to ensure that the same activity is subject to the same regulation irrespective of the way the service is delivered, so that innovation is enabled, and level-playing field preserved"³.

Q8: Would the cross-border trials be of interest to your organisation? If so, could you provide any potential example use cases?

Cross-border trials would be of interest to GFMA member firms. Below are several use case examples:

- Determining and applying standards for identity and verification (e.g. AML, KYC, Digital identities);
- Cross-border activities (e.g. use of Cloud computing, Crypto-assets, wider technological inter-dependencies, direct account opening for client's resident in non-bookings center markets, advisory solutions for cross-border clients, or international remittance);
- Post Trade (e.g. clearing and settlement) use of emerging technologies (e.g. DLT);
- Emerging technology (e.g. AI) for regulation and compliance-based activities (e.g. trade surveillance);
- Treatment and controls applicable to data (e.g. data privacy, data localisation)
- Harmonisation of regulatory reporting.

GFMA believe that cross-border trials would allow a firm to easily take part in multiple international sandboxes for a given pilot project, so cross-border firms can explore projects with an international scope. Coordination between sandboxes, via the GFIN, would help remove challenges firms face today due to different rules and requirements for sandboxes across jurisdictions. Participation in trials should not require the existence of sandboxes in a firm's national jurisdiction. That requirement may create a competitive imbalance affecting those firms that are registered in jurisdictions less open towards such testing frameworks.

In order to not unintentionally exclude any potential future use cases, it would be welcome if more generic 'beyond banking' approaches could also fall within the scope of the GFIN I. This could include regulators collaborating on additional Tech solutions affecting the financial sector, such as voice recording tools that could be deployed for various purposes, from chatbot functionalities to regulatory communications surveillance.

Q9: Do you agree with the proposed approach to managing the application process for cross-border trials?

The consultation paper outlines two proposed approaches to manage the application for cross-border trials; set cohorts based on specific topics, or a rolling and open-topic process.

The running of cross-border firm trials would be best suited where they can be completed with flexibility in mind (virtually or by entering the real market) and are focused on initiatives which have the broadest application and appeal to all involved regulators and participating stakeholders. Both cohort or rolling approaches for trials could be suitable based on a specific objective or need, noting that a rolling approach would provide reduced time to market for all participants. This will be key for cross-border initiatives of the nature outlined in question 8 which are quickly evolving and highly competitive.

³ European Commission "FinTech: A more competitive and innovative financial sector" Consultative Document, 2017, p5 ([link](#))

The application process should allow firms to apply once and provide access to many jurisdictions (e.g. “one-stop-shop mechanism”) for approval, to derive the most benefit.

However, the GFIN should provide further clarity and transparency on the application process, any minimum application criteria that will be applied, the content required for trial plans and ongoing reporting, and what information will be published and shared following completion. This clarity will be important to drive more adoption by participants such as large-scale financial services firms, as well as provide views on how this could align with relevant regional sandboxes and their selection criteria.

GFMA believe that a single set of application criteria would be preferable, however a common lexicon used by all regulators to set their criteria would also help to minimise differences in approaches.

Finally, the application process requires further clarity in cases where a jurisdiction may decline to support the trial, on what grounds, and what impact this may have on the trial or their continued participation in the process.

Q10: [For regulators] Do you anticipate any challenges with the proposed approach to managing the application process, or conducting cross-border trials?

GFMA have not responded to this question.

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