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Global Blockchain Business Council

Fintech Updater – March 2020

EU, UK and US regulatory developments

FinTech

EU	**EBA digital finance priorities for 2020**	The EBA has published a speech delivered by its chairperson, José Manuel Campa, at the 4th Annual Conference on 'FinTech and Digital Innovation: Delivering for the Future'. In his speech Mr Campa focuses on the progress the EBA has made towards removing obstacles to the application of innovative technologies in the banking and payments sectors, namely by working to achieve technological neutrality in its regulatory and supervisory approaches and its strategy going forward. During his speech Mr Campa states that the EBA has identified areas where additional regulation is needed including strengthening and harmonising the current legislative framework for third party service providers. At the micro level, by strengthening the toolkit to enable supervisors to supervise more effectively. At the macro level by introducing a new oversight framework that sets higher standards related to security and data protection (e.g. obligatory cyber security certification). The scope of the oversight should aim at monitoring concentration risk, financial stability risks and ensuring cooperation with relevant authorities. In terms of the year ahead, Mr Campa mentions that the EBA will be undertaking a major new thematic piece focussing on some of the structural changes it is starting to observe in the financial sector – specifically the trend towards the reaggregation of products and services on platforms, and emerging new forms of interconnection in the financial sector. Date: 3 March 2020
EU	**FMLC response to Commission consultation on regulatory framework for cryptoassets**	The Financial Markets Law Committee (**FMLC**) has published a press release announcing the publication of its response to the European Commission's (**Commission**) consultation on the suitability of the existing regulatory framework for cryptoassets. The Commission published its consultation in December 2019. The FMLC's response takes the form of two complementary reports: • Part I, Taxonomical approaches to cryptoassets, has been drafted by the FMLC Secretariat and considers issues raised by the Commission on the classification of cryptoassets. The FMLC asks the Commission to review its proposed criteria for the classification of cryptoassets. The FMLC argues that the characterisation of cryptoassets simply by reference to their functions yields an incomplete picture and that regulation of cryptoassets on the basis of such characterisation may fail to take into account the many other factors that influence the roles of various actors creating, holding or transferring cryptoassets. • Part II, The regulation of cryptoassets, comprises comments in response to the section of the consultation dealing with the application of existing EU regulation to cryptoassets. The FMLC suggests that legislation that regulates the financial markets in general, such as MiFID II and the Market Abuse Regulation can be considered to be technology neutral and could encompass cryptoassets to the extent that they are functionally equivalent to financial instruments. However, it states that existing legislation that relates specifically to financial markets infrastructure, such as EMIR and the Central Securities Depositories Regulation (CSDR) may not be appropriate for cryptoassets, advising that a new type of regulation will probably be needed instead of trying to shoehorn a new phenomenon into old concepts. The FMLC also points out uncertainties arising from the concepts of permissioned networks and centralised platforms used by the Commission in the consultation. Date: 17 March 2020

UK	**FCA report on evolution of TechSprints**	The FCA has issued a report [Fostering innovation through collaboration: the evolution of the FCA TechSprint Approach]. In this report the FCA provides an evaluation of its TechSprint model and notes some areas where it is working to further develop and improve its approach in the context of its wider efforts to foster sustainable and desirable innovation in financial markets. Through case studies the FCA illustrates key points, learnings and provided added information and insights that it hopes will help others who are thinking of adopting a similar approach. Date: 3 March 2020
UK	**FCA speech – Unstable coins: cryptoassets, financial regulation and preventing financial crime in the emerging market for digital assets**	The FCA has published a speech given by Therese Chambers (Director of Retail and Regulatory Investigations, FCA) entitled [Unstable coins: cryptoassets, financial regulation and preventing financial crime in the emerging market for digital assets]. In summary, highlights in the speech include: • cryptoassets such as Bitcoin, present different financial crime risks from traditional FinTech apps, as they enable digital value transfer without a financial intermediary; • money laundering using cryptoassets is a real danger, but the application of robust anti-money laundering (**AML**) controls combined with international cooperation can help reduce the risk; • robust regulation to prevent financial crime supports financial innovation in new markets such as cryptoassets; and • the FCA's AML regime for cryptoassets presents the FCA with unique supervisory and enforcement powers that are tailored to meet international standards. Date: 6 March 2020
UK	**FCA summary of cyber co-ordination group insights**	The FCA has published a [web page] providing the latest insights from its cyber co-ordination groups that were first brought together in 2017. These groups meet every quarter and allow firms to share knowledge of their common experiences and discuss best practices in their approach to cyber security. Each cyber co-ordination group represents a specific sub-sector. In 2019, these sub-sector groups came from: insurance, fund management, investment management, retail banking, retail investments and lending, brokers and principal trading firms, and trading venues and benchmark administrators. Firm participation has grown from 175 in 2018, to over 185 firms in 2019. On the web page the FCA summarises the latest discussions under four themes. The first theme, Cyber Risks, addresses high-level risks discussed each quarter using a 'Cyber Risk Radar' which tracks the threat to each sector. Firms discussed the most concerning risks in greater depth, and how they could mitigate or manage these risks. The output from these discussions is highlighted in 3 themes of identity and access management, third parties and supply chain, and malicious emails. The information on the FCA web page is not FCA guidance. It does not set out the FCA's expectations for systems and controls that firms should have in place to comply with its regulatory requirements. Date: 11 March 2020
UK	**Spring 2020 Budget: key FinTech announcements**	The Chancellor of the Exchequer, Rishi Sunak, has delivered the [Spring 2020 Budget]. The key FinTech measures and announcements are set out below. **FinTech** A review of the UK FinTech sector will be undertaken, which will be led by Ron Kalifa OBE. This aims to identify what more can be done, both by government and industry, to

		support growth and competitiveness in this sector and to ensure the UK remains a global FinTech leader. The government will also extend funding to the Fintech Delivery Panel, a team of industry experts formed by Tech Nation at the request of HM Treasury in order to develop collaborations that impact domestic FinTech startups and accelerate their time to market. The government also says that it will tour the UK to showcase its diverse range of FinTech firms, in an effort to promote FinTech growth across the UK, rather than just in London's financial services sector. **Digital currencies** The government is looking forward to the Bank of England (**BoE**) publishing its discussion paper on a possible UK central bank digital currency (CBDC). It states that the UK will continue to take a leading role in exploring digital currencies, and the opportunities and challenges they could bring. **Cryptoassets** The government plans to consult on bringing certain cryptoassets into scope of financial promotion regulation. It also intends to consult later in 2020 on the broader regulatory approach to cryptoassets, including new challenges from stablecoins. Date: 11 March 2020
UK	**BoE discussion paper on central bank digital currency**	The BoE has published a discussion paper on central bank digital currency (**CBDC**). The BoE has not yet made a decision on whether to introduce CBDC, and intends to engage widely on the benefits, risks and practicalities of doing so. The discussion paper is part of that process. If a CBDC were introduced in the UK, the BoE states that it would be denominated in pounds sterling, so £10 of CBDC would be worth the same as a £10 banknote. Any CBDC would be introduced alongside – rather than replacing – cash and commercial bank deposits. The discussion paper outlines an illustrative 'platform' model of CBDC designed to enable households and businesses to make payments and store value. This is not a blueprint for CBDC, nor does it approach a decision to introduce one. Instead, it is intended to illustrate the key issues as a basis for further discussion and exploration of the opportunities and challenges that CBDC could pose for payments, the BoE's objectives for monetary and financial stability, and the wider economy. The discussion paper also notes that choices around technology will have a major impact on the extent to which CBDC meets its overall objectives. Although CBDC is often associated with distributed ledger technology the BoE does not presume that any CBDC must be built using DLT, and there is no inherent reason it could not be built using more conventional centralised technology. However, the BoE does note that DLT does include some potentially useful innovations, which may be helpful when considering the design of CBDC. The deadline for comments on the discussion paper is 12 June 2020. Date: 12 March 2020
UK	**BoE sets out proposals for open data for SME financing**	The BoE has published a paper (Open data for SME finance) explaining in detail its proposal for open data for small and medium-sized enterprise (**SME**) financing, as well as providing an update on what it has learned from its research and industry engagement to date. The paper will guide the BoE's ongoing engagement with public authorities, including as an input to the government's Smart Data Review and Digital Markets Taskforce, as well as the FCA's Open Finance initiative. In particular, the paper will form part of the BoE's input to the government summit announced in the March 2020 Budget, looking at how more data needs to be made accessible to make it faster and easier for SMEs to shop around for credit. Five priority areas were previously identified by the BoE in its June 2019 response to a

		report on the future of finance. One of these was to help develop an open data platform that could deliver a portable credit file for SMEs, thereby boosting their access to finance. Under this proposal, it is thought that providing open data across the whole economy could ease frictions in the financial system and help to close the £22bn funding gap for SMEs across the UK. This paper explains in more detail the BoE's proposal. The paper describes how in practice this open data platform would be created by a decentralised network of data providers, using a standardised set of application programming interfaces (**APIs**) to transfer data around the financial system instantly, at the request of any SME. Data would only move with the permission of an SME, there would be no physical credit file or central data repository, and there would be no need to build central infrastructure. As with the internet, the protocols and standards would enable interoperability and provide a platform where firms can innovate upon. By simply pressing a button, an SME could authorise an API call to data providers with whom it already has a relationship, such as its insurance company or bank, to instantly share specified data fields with a third party such as a non-bank business lender. Each data transfer would have end-to-end encryption and would only provide access for a specified period of time. The paper also discusses policy issues, design considerations, and lessons learned from other countries' experiences. Date: 12 March 2020
UK	**JMLSG consults on new chapter of AML and CTF guidance relating to cryptoasset exchanges and custodian wallet providers**	The Joint Money Laundering Steering Group (**JMLSG**) has published for consultation the proposed text of a new chapter to be added to Part II of its anti-money laundering (**AML**) and counter-terrorist financing (**CTF**) guidance for the financial services sector. The proposed new chapter (referred to as Sector 22) contains sectoral guidance relating to cryptoasset exchange providers and custodian wallet providers and takes account of the Money Laundering and Terrorist Financing (Amendment) Regulations 2019, which came into force on 10 January 2020. The main areas covered within the guidance include: • definitions; • the scope of regulation; • the money laundering and terrorist financing risks in this sector; • risk management; • customer due diligence; • dealing with suspicious transactions; and • sanctions screening. The deadline for comments on the proposed new chapter is 18 May 2020. Date: 17 March 2020
UK	**House of Lords EU Financial Affairs Committee recommendations on financial services after Brexit**	The House of Lords EU Financial Affairs Committee has published a letter sent to the Chancellor of the Exchequer, Rishi Sunak, containing its conclusions and recommendations following an inquiry on financial services after Brexit conducted between January and March 2020. In relation to FinTech, the committee recommends that the UK should take a leadership role to develop common global standards in this area. It should also develop closer bilateral relations with jurisdictions with which it shares a common approach to promoting

		cross-border financial services. Date: 27 March 2020

International developments

G20

There has been no reported activity.

Financial Stability Board (FSB)

There has been no reported activity.

Bank for International Settlements (BIS)

There has been no reported activity.

International Organisation of Securities Commissions (IOSCO)

IOSCO report on global stablecoin initiatives

The International Organization of Securities Commissions (**IOSCO**) has published a report identifying the possible implications of global stablecoin initiatives for securities markets regulators. The report, Global Stablecoin Initiatives, examines the regulatory issues arising from the use of global stablecoins and explores how existing IOSCO Principles and Standards could apply to these arrangements.

The report finds that, depending on its structure, a global stablecoin may fall within securities market regulatory frameworks. Whether IOSCO Principles and Standards are relevant to stablecoins depends on the specific design of each initiative and its legal and regulatory characteristics and features.

The report also includes a hypothetical case study and how it could interact with the perimeter of securities-market regulators' remits and discusses, at a high level, how some of the relevant IOSCO Principles and Standards could apply.

Date: 23 March 2020

Committee on Payments and Market Infrastructures (CPMI)

There has been no reported activity.

Basel Committee on Banking Supervision (Basel Committee)

There has been no reported activity.

Financial Action Task Force (FATF)

FATF guidance on digital ID

The Financial Action Task Force (**FATF**) has published guidance on digital identity (**digital ID**).

The FATF guidance is intended to assist governments, regulated entities and other relevant stakeholders in determining how digital ID systems can be used to conduct certain elements of customer due diligence under FATF Recommendation 10.

Section II of the guidance briefly summarises the key features of digital ID systems that are explained in further detail in Appendix A. Section III summarises the main FATF requirements addressed in the guidance, including the requirement to identify and verify customers' identities using 'reliable, independent' source documents, data or information. The guidance clarifies that non-face-to-face customer identification and transactions that rely on reliable, independent digital ID systems with appropriate risk mitigation measures in place, may present a standard level of risk, and may even be lower risk. Section IV covers the benefits and risks of digital ID systems for anti-money laundering / countering the financing of terrorism compliance and related issues. Section V provides guidance for government authorities, regulated entities and other relevant parties on how to apply a risk-based approach to using digital ID systems for customer identification and verification consistent with FATF Recommendation 10(a) and to support ongoing due diligence in Recommendation 10(d). The recommended approach is technology neutral. Section V also explains how to leverage digital ID assurance frameworks and standards for assessing reliability / independence.

The guidance is non-binding. It clarifies current FATF standards, which are technology neutral.

Date: 6 March 2020

FATF work on stablecoins and risk-based supervision

The FATF has published the March 2020 edition of its private sector business bulletin.

The bulletin describes how FATF has been closely monitoring the implementation and impact of its new standards which seek to address the anti-money laundering (**AML**) and counter-terrorist financing (**CTF**) risks posed by virtual assets, including the progress made towards fully implementing the "travel rule". The travel rule requires transparency about the originator and beneficiary of payments.

In July 2020, the FATF plans to report to the G20 on its analysis of the money laundering and terrorist financing risks connected with stablecoins, as well as the application of its standards to them.

The FATF will also develop guidance on risk-based AML and CTF supervision that explains how supervisors can assess these risks to their sectors and how specific supervision programmes can be developed which are based on the such risks. This follows the first FATF supervisors' forum in November 2019 and the virtual asset service provider supervisors' forum in January 2020.

Date: 24 March 2020

World Economic Forum

There has been no reported activity.

Bank of Canada

The Bank of Canada published a speech and background paper on the subject of a cash-like central bank digital currency in February 2020.

The Changing Payment Ecosystem

A 2017 Bank of Canada survey showed that Canadians use cash for about one-third of their transactions, compared with more than half a decade before. One in ten Canadians now claims to be entirely “cashless”. In addition to this trend, globalisation has put the spotlight on cross-border payments. Technological developments also continue to change the payment ecosystem. In particular, new forms of cryptocurrencies (e.g. stablecoins) have better prospects for widespread adoption than their predecessors.

In response to these changes, the Bank of Canada is constructing a fast, always-on payment system called Real-Time Rail (**RTR**). To complement RTR, the government is exploring open banking, also known as consumer-directed finance. The aim of open banking is to give customers greater control of their financial data and safe access to a wider range of financial services, while reducing costs. The government is also looking to implement a new Retail Payments Oversight Framework that will require that payment service providers strengthen their risk management practices.

The Bank of Canada’s Initiatives

The Bank of Canada is implementing initiatives to prepare for the future of money and payments, including:

1. supporting Payments Canada’s Payment Modernization program to improve the speed, reliability, accessibility and end-user experience of payment systems;

2. ensuring bank notes remain available to Canadians who want to use them, including maintaining a distribution model that remains resilient and cost effective; and

3. building, as a contingency, the capability to issue a cash-like central bank digital currency (**CBDC**) to the public.

The Bank of Canada currently has no plans to launch a CBDC, but since it will take several years to build this capacity preparing in advance is critical. The Bank of Canada will consider launching a CBDC if: (1) the use of bank notes declines to a point where Canadians no longer had the option of using them for a wide range of transactions; or (2) one or more alternative digital currencies - likely issued by private sector entities - become widely used as an alternative to the Canadian dollar.

The decision to launch a CBDC would only be made after considering alternative policies and the attendant risks, including: (1) adversely affecting the stability of deposit funding for banks or increasing the risk of a bank run; or (2) the CBDC becoming a vehicle for financial abuses, such as money laundering and terrorist financing. A decision to launch a CBDC would require the full support and approval of the Government of Canada and acceptance by the Canadian public.

Date: 25 February 2020