

Global Blockchain Business Council

Monthly Fintech Updater

Norton Rose Fulbright LLP – 31 July



Global, EU, UK and US Regulatory Developments

EU	
Eurosystem launches digital euro project	<p><u>On 14 July</u>, the Governing Council of the European Central Bank (ECB) announced the launch of the investigation phase of a digital euro project. Following the decision, the President of the Eurogroup, Paschal Donohoe, joined the meeting, congratulated the Governing Council and expressed his full support for the project.</p> <p>“It has been nine months since we published our report on a digital euro. In that time, we have carried out further analysis, sought input from citizens and professionals, and conducted some experiments, with encouraging results. All of this has led us to decide to move up a gear and start the digital euro project”, says ECB President Christine Lagarde. “Our work aims to ensure that in the digital age citizens and firms continue to have access to the safest form of money, central bank money”.</p> <p>The investigation phase will last 24 months and aim to address key issues regarding design and distribution. A digital euro must be able to meet the needs of Europeans while at the same time helping to prevent illicit activities and avoiding any undesirable impact on financial stability and monetary policy. This will not prejudice any future decision on the possible issuance of a digital euro, which will come only later. In any event, a digital euro would complement cash, not replace it.</p> <p>“We will engage with the European Parliament and other European decision-makers and inform them regularly about our findings. Citizens, merchants and the payments industry will also be involved”, says ECB Board Member Fabio Panetta, Chair of the High-Level Task Force on a digital euro.</p> <p>During the project’s investigation phase, the Eurosystem will focus on a possible functional design that is based on users’ needs. It will involve focus groups, prototyping and conceptual work. The investigation phase will examine the use cases that a digital euro should provide as a matter of priority to meet its objectives: a riskless, accessible, and efficient form of digital central bank money.</p> <p>The project will also shed light on the changes to the EU legislative framework which might be needed and that will be discussed with, and decided by, European co-legislators. The ECB will continue to engage with the European Parliament and other European policymakers throughout the project’s investigation phase. The <u>technical work</u> on the digital euro with the European Commission will also be intensified.</p> <p>Finally, the investigation phase will assess the possible impact of a digital euro on the market, identifying the design options to ensure privacy and avoid risks for euro area citizens, intermediaries and the overall economy. It will also define a business model for supervised intermediaries within the digital euro ecosystem. A <u>market advisory group</u> will take account of prospective users’ and distributors’ views of a digital euro during the investigation phase. Those views will also be discussed by the <u>Euro Retail Payments Board</u>.</p>

	<p>Experiments were conducted in the four following areas: the digital euro ledger; privacy and anti-money laundering; limits on digital euro in circulation; end-user access while not connected to the internet and facilitating inclusiveness with appropriate devices. No major technical obstacles were identified to any of the assessed design options.</p> <p>Both the Eurosystem TARGET Instant Payment Settlement (TIPS) and alternatives such as blockchain were proven capable of processing more than 40,000 transactions per second. The experiments also suggested that architectures combining centralised and decentralised elements are possible.</p> <p>According to these experiments, a digital euro core infrastructure would be environmentally friendly: for the architectures that were tested, the power used to run tens of thousands of transactions per second is negligible compared with the energy consumption of crypto-assets such as bitcoin.</p> <p>These practical findings will provide useful input for the investigation phase.</p> <p>Published 14 July</p>
<p>Commission overhauls anti-money laundering and countering the financing of terrorism rules to include the crypto sector</p>	<p><u>On 20 July</u>, the European Commission presented an ambitious package of legislative proposals to strengthen the EU's anti-money laundering and countering terrorism financing (AML/CFT) rules. The package also includes a proposal for the creation of a new EU authority to fight money laundering. This package is part of the Commission's commitment to protect EU citizens and the EU's financial system from money laundering and terrorist financing. The aim of this package is to improve the detection of suspicious transactions and activities, and to close loopholes used by criminals to launder illicit proceeds or finance terrorist activities through the financial system.</p> <p>The measures are intended to greatly enhance the <u>existing EU framework</u> by taking into account new and emerging challenges linked to technological innovation. These include virtual currencies, more integrated financial flows in the Single Market and the global nature of terrorist organisations. These proposals will help to create a much more consistent framework to ease compliance for operators subject to AML/CFT rules, especially for those active cross-border.</p> <p>The package consists of four legislative proposals:</p> <ol style="list-style-type: none"> 1. A <u>Regulation establishing a new EU AML/CFT Authority</u>; 2. A <u>Regulation on AML/CFT, containing directly-applicable rules, including in the areas of Customer Due Diligence and Beneficial Ownership</u>; 3. A sixth <u>Directive on AML/CFT ("AMLD6")</u>, replacing the existing <u>Directive 2015/849/EU (the fourth AML directive as amended by the fifth AML directive)</u>, containing provisions that will be transposed into national law, such as rules on national supervisors and Financial Intelligence Units in Member States; 4. A <u>revision of the 2015 Regulation on Transfers of Funds to trace transfers of crypto-assets</u> (Regulation 2015/847/EU).

	<p>Full application of the EU AML/CFT rules to the crypto sector</p> <p>At present, only certain categories of crypto-asset service providers are included in the scope of EU AML/CFT rules. The proposed reform will extend these rules to the entire crypto sector, obliging all service providers to conduct due diligence on their customers. The amendments will ensure full traceability of crypto-asset transfers, such as Bitcoin, and will allow for prevention and detection of their possible use for money laundering or terrorism financing. In addition, anonymous crypto asset wallets will be prohibited, fully applying EU AML/CFT rules to the crypto sector.</p> <p>The legislative package will now be discussed by the European Parliament and Council. The Commission looks forward to a speedy legislative process. The future AML Authority should be operational in 2024 and will start its work of direct supervision slightly later, once the Directive has been transposed and the new regulatory framework starts to apply.</p> <p>Published 20 July</p>
<p>France</p>	
<p>Banque de France and Monetary Authority of Singapore break new ground in CBDC experimentation</p>	<p><u>On 8 July</u>, the Banque de France (BdF) and the Monetary Authority of Singapore (MAS) announced the successful completion of a wholesale cross-border payment and settlement experiment using central bank digital currency (CBDC). The experiment, supported by J.P. Morgan's Onyx, simulated cross-border transactions involving multiple CBDCs (m-CBDC) on a common network between Singapore and France. This experiment is one of the last of the Banque de France wholesale experiment program, which will be achieved by fall 2021, and is the first m-CBDC experiment that applied automated market making and liquidity management capabilities to reap cross-border payment and settlement efficiencies.</p> <p>Cross border payments currently rely on correspondent bank arrangements that are subject to limited transparency on foreign exchange rates, restricted operating hours of payment infrastructures and currency settlement delays due to differences in time zones. To address these challenges, the experiment used a common m-CBDC network, aimed at facilitating cross border payments on a 24 x 7 real time basis.</p> <p>The experiment simulated cross-border and cross-currency transactions for Singapore Dollar (SGD) CBDC and €uro (EUR) CBDC, and was conducted using a permissioned, privacy-enabled blockchain based on Quorum technology.</p> <p>Four key outcomes were achieved:</p> <ol style="list-style-type: none"> 1. The demonstration of interoperability across different types of cloud infrastructure. Blockchain nodes were set up across private and public cloud infrastructures in both countries. 2. The design of a common m-CBDC network that enabled the two central banks to have visibility on cross border payments, while retaining independent control over the issuance and distribution of their own CBDC. 3. The setup of an experimental m-CBDC network that incorporated automated liquidity pool and market-making service for EUR/SGD currency pairs. The use of smart contracts automatically managed the EUR/SGD currency exchange rate in line with real-time market transactions and demands.

	<p>4. The simulation of an experimental m-CBDC network that showed that the number of correspondent banking parties involved in the payment chain for cross-border transactions can be reduced. Consequently, the number of contractual arrangements, the KYC burden as well as the associated costs could be cut down.</p> <p>While the experiment was limited to two central banks, the design of the m-CBDC network enables it to be scaled - up to support the participation of multiple central banks and commercial banks located in different jurisdictions. This offers great potential to simplify integration and significantly improve cost efficiencies, since a single connection to a common platform is used in place of multiple connections needed in the current correspondent banking model. This experiment is also one of the last of BdF's wholesale experiment programme, which will be achieved by fall 2021.</p> <p>In a statement, Valérie Fasquelle, Director of Infrastructures, Innovation and Payments - Banque de France, declared, "by experimenting the circulation of EUR CBDC in a shared corridor network, Banque de France and MAS tested the possibility to provide a link with other CBDCs all over the world. It is an opportunity to construct arrangements for multiple CBDCs models, improving cross-border payments and increasing harmonization of post trade procedures."</p> <p>Sopnendu Mohanty, Chief FinTech Officer of MAS, said, "building a multi-currency shared ledger infrastructure allows participants across countries to transact with each other directly in different currencies. This m-CBDC experiment has broken new ground by decentralizing financial infrastructure, to improve liquidity management and market making services. It charts the path for scalable CBDC networks where central banks and commercial banks can work together to achieve the vision of cheaper, safer and more efficient infrastructure for cross border payments."</p> <p>Umar Farooq, CEO, Onyx by J.P. Morgan, said, "participating in simulations which explore the technology and operational aspects of multi-currency corridor networks will be a foundational component of global payment infrastructure to come. This is a natural continuation of our work in the area of central bank and commercial bank digital currencies."</p> <p>Published 8 July</p>
<p>Russia</p>	
<p>Bank of Russia recommends stock exchanges do not list crypto-related firms</p>	<p><u>On 22 July</u>, the Bank of Russia recommended that Russian exchanges do not include securities of Russian and foreign issuers which depend on cryptocurrency rates, prices for foreign digital financial assets, changes in cryptocurrency indices and crypto assets, as well as the value of cryptoderivatives and securities of cryptocurrency funds. It affirmed that management companies should not include these assets in mutual funds, and brokers and trustees are advised to refrain from offering pseudo-derivative financial instruments with such underlying assets to unqualified investors.</p> <p>It argued that Cryptocurrencies and digital assets are characterized by high volatility, opacity of pricing, low liquidity, technological, regulatory and other specific risks. The purchase of financial instruments tied to them entails increased risks of losses for people who do not have sufficient experience and knowledge. The recommendations of the Bank of Russia are a preventive measure, aimed at preventing the offer of such instruments to the mass investor.</p>

	<p>The restrictions do not apply to digital national currencies in the event of their release into circulation. They also do not apply to digital financial assets issued under Russian law in information systems, the operators of which are included in the register of the Bank of Russia.</p> <p>Published 22 July</p>
UK	
<p>New forms of digital money and central bank digital currencies webinars</p>	<p><u>On 5 and 8 July</u>, the Bank of England (BoE) held two webinars: the first focused on the <u>New Forms of Digital Money Discussion Paper</u>, and the second focused on CBDC. The webinars follow the BoE’s publication of New Forms of Digital Money on June 7 and the summary of responses which aimed to broaden the debate around new forms of digital money and enabled it to seek views on the emerging thoughts on the subject. This will help inform the BoE’s thinking on CBDC and will also support the ongoing work of the recently announced CBDC Taskforce, Engagement and Technology Forums.</p> <p>Both webinars are can be viewed online <u>here</u>.</p> <p>Published 5 and 8 July</p>
<p>The impact of machine learning and big data on credit markets</p>	<p><u>On 9 July</u>, the BoE published a staff working <u>paper</u> on the impact of machine learning and big data on credit markets.</p> <p>Press release as follows:</p> <p>There is evidence that machine learning (ML) can improve the screening of risky borrowers, but the empirical literature gives diverse answers as to the impact of ML on credit markets. We provide a model in which traditional banks compete with FinTech banks that screen borrowers using ML technology and show that the impact of the adoption of the ML technology on credit markets depends on the characteristics of the market (e.g. borrower mix, cost of innovation, the intensity of competition, precision of the innovative technology, etc.). We provide a series of scenarios. For example, we show that if implementing ML technology is relatively expensive and lower-risk borrowers are a significant proportion of all risky borrowers, then all risky borrowers will be worse off following the introduction of ML, even when the lower-risk borrowers can be separated perfectly from others. At the other extreme, we show that if costs of implementing ML are low and there are few lower-risk borrowers, then lower-risk borrowers gain from the introduction of ML, at the expense of higher-risk and safe borrowers. Implications for policy, including the potential for tension between micro and macroprudential policies, are explored.</p> <p>Published 9 July</p>

Canada	
Canadian securities regulators sign innovative functions co-operation agreement with the Securities and Futures Commission of Hong Kong	<p>On 8 July, members of the Canadian Securities Administrators (CSA) announced that they had signed an innovative functions co-operation agreement with the Securities and Futures Commission of Hong Kong (SFC). The members are the securities regulatory authorities in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan.</p> <p>The agreement extends the work of the CSA Regulatory Sandbox Initiative and of the SFC FinTech Contact Point. Notably, it includes a referral mechanism for innovative businesses, and enhances and clearly defines the scope of information-sharing between these jurisdictions.</p> <p>“We are pleased to strengthen our relationship with the SFC, which plays a central role in the development of the FinTech industry,” said Louis Morisset, CSA Chair and President and CEO of the Autorité des marchés financiers. “Thanks to this collaboration, registered innovative firms based in our respective jurisdictions will have the opportunity to operate in growing regulated markets.”</p> <p>“This agreement reflects the SFC’s continuing focus on strengthening regulatory cooperation with its counterparts and facilitating innovation in financial services,” said Ashley Alder, CEO of the SFC. “We look forward to working closely with the members of the CSA in sharing experiences and information with a view to supporting innovative firms’ communications with regulators globally.”</p> <p>Published 8 July</p>

South Korea	
FSC introduces guideline on the use of artificial intelligence in financial services	<p><u>On July 8</u>, the Financial Services Commission (FSC) held a consultative body meeting on digital finance via teleconference, chaired by Vice Chairman Doh Kyu-sang, and introduced a guideline on the use of artificial intelligence in financial services to bolster public trust in AI-based financial services and continue to promote innovation in financial industry.</p> <p>All financial and finance-related institutions offering financial transactions and other customer oriented services using AI technologies should follow the guideline which sets forth the least necessary level of standards for AI.</p> <p>Key details of the guideline are as follows:</p> <ol style="list-style-type: none">1. <u>Responsibility</u> Establishment of three internal control mechanisms, such as adopting ethical principles for AI, designating an internal organization overseeing the entire process of AI-related services and maintaining a risk monitoring and management system for potential risks of privacy breach.2. <u>Accuracy and Safety</u> Management of the origin and quality of data used for machine learning and establishing a privacy protection system to prevent abuse or misuse of personal financial data.3. <u>Transparency and Fairness</u> Maintaining a bias control mechanism to prevent discriminatory services against certain consumer groups and pursuing fairness in service provision by establishing and evaluating impartiality standards.4. <u>Consumer Rights</u> Adequate provision of explanations to financial consumers on AI-based financial services to help consumers better understand and practice their rights.5. <u>Safety and security</u> Equivalent level of safety and security measures applied to AI-based financial services developed and operated by third-party contractors. <p>The authorities plan to begin applying the guideline within this year after a sufficient time for preparatory work. Based on this guideline, financial industry groups will draw up more detailed guidelines tailored to the needs of specific sectors. In the third quarter, the authorities also plan to announce plans for a data library and an AI testbed to continue to promote the use of AI in financial services.</p> <p>Published 8 July</p>

<p>FSC selects eight more 'Innovative Financial Services' for financial regulatory sandbox</p>	<p><u>On 21 July</u>, the FSC decided to designate eight more financial solutions as 'innovative financial services'. This brings the total number of designated services to 153 since the regulatory sandbox program was first launched on April 1, 2019.</p> <p>The new cohort of 'Innovative Financial Services' comprise of the following:</p> <ol style="list-style-type: none"> 1. A real-name identification and verification service using facial recognition technologies which allows consumers to visit bank branches and use financial services without presenting their ID cards (Daegu Bank, expected in Apr. 2022). 2. A real-name identification and verification service using facial recognition technologies for checking customer's personal identification in contactless settings, which will allow customers to open up bank accounts even after the bank's regular work hours (Busan Bank, expected in Oct. 2021). 3. Online-based telemarketing insurance subscription services using mobile devices that reduce the hassle of reading and recording scripts for insurance telemarketers while still guaranteeing supplemental measures for consumer protection (Toss Insurance, DB Insurance and NongHyup Life Insurance, expected in Oct. 2021, Feb. 2022 and Mar. 2022, respectively). 4. QR code enabled credit card payment services which require no physical point-of-service (POS) terminal for businesses to process credit card payments which will help improve convenience for consumers while allowing more small-scale businesses to adopt mobile simply payment methods (Seeroo Information and Paycoq, both expected in H1 2022). 5. A non-recourse accounts receivable factoring service which assumes the risk of buyer's failure to honor payment obligations in place of the seller, thereby helping firms with new technologies to raise funds and carry out business operations in a more stable manner (Korea Technology Finance Corporation, expected in Jun. 2022). <p>Published 22 July</p>
<p>Singapore</p>	
<p>MAS launches global challenge to accelerate innovation in responsible AI solutions</p>	<p><u>On 12 July</u>, the Monetary Authority of Singapore (MAS) announced the launch of the inaugural Global Veritas Challenge. The competition seeks to accelerate the development of solutions which validate artificial intelligence and data analytics (AIDA) solutions against the fairness, ethics, accountability and transparency (FEAT) principles, to strengthen trust and promote greater adoption of AI solutions in the financial sector.</p> <p>FinTech firms, solution providers and financial institutions around the world are invited to submit innovative solutions to address eight problem statements identified by banks. These problem statements focus on validating the fairness of AI solutions for selected banking use cases in:</p> <ul style="list-style-type: none"> • product marketing; • risk, compliance and fraud monitoring; • loan origination and know-your-customer (KYC); and • credit scoring and profiling.

The Global Veritas Challenge is supported by Accenture. Up to 10 finalists will be shortlisted for a programme where they will develop customised prototypes on the API Exchange (**APIX**) AI Sandbox (known as Veritas), under the guidance of industry leaders. Finalists will pitch their solutions during the Global Veritas Challenge Demo Day on 20 October 2021 as part of the Singapore FinTech Festival (**SFF**). Up to three winners will be selected, with each receiving a cash prize of S\$50,000. The winners will showcase their projects to a global audience during the SFF, which will be held from 8 to 12 November 2021.

Mr Sopnendu Mohanty, Chief FinTech Officer, MAS, said, “responsible AI solutions which validate AI solutions against the FEAT principles (fairness, ethics, accountability and transparency) strengthen trust in AI technologies among users and the general public. This trust underpins all our AI development efforts and is vital to realising Singapore’s ambition as a global hub for AI in the financial sector. I invite all innovators to use this unique platform to showcase their responsible AI solutions to a global audience.”

Mr Lee Joon Seong, Managing Director, Accenture’s Applied Intelligence Lead for Southeast Asia, said, “Accenture Research found that majority of C-suite executives believe that AI is a key leverage to achieve their growth objectives. When incorporating AI into their business, these leaders must also understand the potential ethical and socio-technical implications; and take steps to mitigate the risks and challenges that may arise. The Global Veritas Challenge 2021 will help to uncover the practical ways in which businesses can incorporate the FEAT principles into their operations. Accenture is proud to be part of this journey as we further strengthen Singapore’s position not only as a leading financial services hub but also one that promotes responsible use of artificial intelligence in the industry”.

Interested parties are encouraged to submit their applications for the Global Veritas Challenge [here](#) by 30 July 2021.

Published 8 July

International Developments

International Monetary Fund (IMF)

IMF warns about using cryptoassets as national currency

On July 26, the IMF published a blog post highlighting the dangers of using cryptocurrency as legal tender.

The post is as follows.

New digital forms of money have the potential to provide cheaper and faster payments, enhance financial inclusion, improve resilience and competition among payment providers, and facilitate cross-border transfers. But doing so is not straightforward. It requires significant investment as well as difficult policy choices, such as clarifying the role of the public and private sectors in providing and regulating digital forms of money.

Some countries may be tempted by a shortcut: adopting cryptoassets as national currencies. Many are indeed secure, easy to access, and cheap to transact. We believe, however, that in most cases risks and costs outweigh potential benefits.

Cryptoassets are privately issued tokens based on cryptographic techniques and denominated in their own unit of account. Their value can be extremely volatile. Bitcoin, for instance, reached a peak of \$65,000 in April and crashed to less than half that value two months later. And yet, Bitcoin lives on. For some, it is an opportunity to transact anonymously—for good or bad. For others, it is a means to diversify portfolios and hold a speculative asset that can bring riches but also significant losses.

Cryptoassets are thus fundamentally different from other kinds of digital money. Central banks, for instance, are considering issuing digital currencies—digital money issued in the form of a liability of the central bank. Private companies are also pushing the frontier, with money that can be sent over mobile phones, popular in East Africa and China, and with stablecoins, whose value depends on the safety and liquidity of backing assets.

Cryptoassets as legal tender?

Bitcoin and its peers have mostly remained on the fringes of finance and payments, yet some countries are actively considering granting cryptoassets legal tender status, and even making these a second (or potentially only) national currency.

If a cryptoasset were granted legal tender status, it would have to be accepted by creditors in payment of monetary obligations, including taxes, similar to notes and coins (currency) issued by the central bank. Countries can even go further by passing laws to encourage the use of cryptoassets as a national currency, that is, as an official monetary unit (in which monetary obligations can be expressed), and a mandatory means of payment for everyday purchases.

Cryptoassets are unlikely to catch on in countries with stable inflation and exchange rates, and credible institutions. Households and businesses would have very little incentive to price or save in a parallel cryptoasset such as Bitcoin, even if it were given legal tender or currency status. Their value is just too volatile and unrelated to the real economy. Even in relatively less stable economies, the use of a globally recognized reserve currency such as the dollar or euro would likely be more alluring than adopting a cryptoasset.

A cryptoasset might catch on as a vehicle for unbanked people to make payments, but not to store value. It would be immediately exchanged into real currency upon receipt. Then again, real currency may not always be readily available, nor easily transferable. Moreover, in some countries, laws forbid or restrict payments in other forms of money. These could tip the balance towards widespread use of cryptoassets.

Proceed with caution

The most direct cost of widespread adoption of a cryptoasset such as Bitcoin is to macroeconomic stability. If goods and services were priced in both a real currency and a cryptoasset, households and businesses would spend significant time and resources choosing which money to hold as opposed to engaging in productive activities. Similarly, government revenues would be exposed to exchange rate risk if taxes were quoted in advance in a cryptoasset while expenditures remained mostly in the local currency, or vice versa.

Also, monetary policy would lose bite. Central banks cannot set interest rates on a foreign currency. Usually, when a country adopts a foreign currency as its own, it “imports” the credibility of the foreign monetary policy and hope to bring its economy—and interest rates—in line with the foreign business cycle. Neither of these is possible in the case of widespread cryptoasset adoption.

As a result, domestic prices could become highly unstable. Even if all prices were quoted in, say, Bitcoin, the prices of imported goods and services would still fluctuate massively, following the whims of market valuations.

Financial integrity could also suffer. Without robust anti-money laundering and combating the financing of terrorism measures, cryptoassets can be used to launder ill-gotten money, fund terrorism, and evade taxes. This could pose risks to a country’s financial system, fiscal balance, and relationships with foreign countries and correspondent banks.

The Financial Action Task Force has set a standard for how virtual assets and related service providers should be regulated to limit financial integrity risks. But enforcement of that standard is not yet consistent across countries, which can be problematic given the potential for cross-border activities.

Further legal issues arise. Legal tender status requires that a means of payment be widely accessible. However, internet access and technology needed to transfer cryptoassets remains scarce in many countries, raising issues about fairness and financial inclusion. Moreover, the official monetary unit must be sufficiently stable in value to facilitate its use for medium- to long-term monetary obligations. And changes to a country’s legal tender status and monetary unit typically require complex and widespread changes to monetary law to avoid creating a disjointed legal system.

In addition, banks and other financial institutions could be exposed to the massive fluctuations in cryptoasset prices. It is not clear whether prudential regulation against exposures to foreign currency or risky assets in banks could be upheld if Bitcoin, for instance, were given legal tender status.

Moreover, widespread cryptoasset use would undermine consumer protection. Households and businesses could lose wealth through large swings in value, fraud, or cyber-attacks. While the technology underlying cryptoassets has proven extremely robust, technical glitches could occur. In the case of Bitcoin, recourse is difficult as there is no legal issuer.

Finally, mined cryptoassets such as Bitcoin require an enormous amount of electricity to power the computer networks that verify transactions. The ecological implications of adopting these cryptoassets as a national currency could be dire.

Striking a balance

As national currency, cryptoassets—including Bitcoin—come with substantial risks to macro-financial stability, financial integrity, consumer protection, and the environment. The advantages of their underlying technologies, including the potential for cheaper and more

	<p>inclusive financial services, should not be overlooked. Governments, however, need to step up to provide these services, and leverage new digital forms of money while preserving stability, efficiency, equality, and environmental sustainability. Attempting to make cryptoassets a national currency is an inadvisable shortcut.</p> <p>Published 26 July</p>
Bank for International Settlements (BIS)	
<p>Report on central bank digital currencies for cross-border payments</p>	<p><u>On 9 July</u>, the committee on Payments and Market Infrastructures, the Bank for International Settlements Innovation Hub, the International Monetary Fund and the World Bank published a <u>report</u> on central bank digital currencies (CBDCs). The report analyses how CBDCs could facilitate enhanced cross-border payments, and how practical efforts are taking these considerations forward. Facilitating international payments with CBDCs can be achieved through different degrees of integration and cooperation, ranging from basic compatibility with common standards to the establishment of international payment infrastructures. The analysis highlights both the need for multilateral collaboration on macro-financial consequences as well as the importance of interoperability between CBDCs.</p> <p>To date, no major jurisdiction has launched a CBDC and many design and policy decisions are still unresolved. Also, most CBDC investigations by central banks focus on domestic issues. In this context, this report is exploratory and examines cross-border implications with the assumption that CBDCs will become widely used. To achieve the potential benefits for public welfare while preserving financial stability, further exploration of design choices and their macro-financial implications is essential.</p> <p>The full report can be read <u>here</u>.</p> <p>Published 9 July</p>
<p>BIS Innovation Hub and Monetary Authority of Singapore publish proposal for enhancing global real-time retail payments network connectivity</p>	<p><u>On 28 July</u>, the Bank for International Settlements Innovation Hub Singapore Centre and the Monetary Authority of Singapore (MAS) <u>published</u> a proposed blueprint for enhancing global payments network connectivity via multilateral linkages of countries' national retail payment systems.</p> <p>Titled <u>Project Nexus</u>, this blueprint outlines how countries can fully integrate their retail payment systems onto a single cross-border network, allowing customers to make cross-border transfers instantly and securely via their mobile phones or internet devices.</p> <p>The Nexus blueprint comprises two main elements:</p> <ul style="list-style-type: none"> • Nexus Gateways, to be developed and implemented by the operators of participating countries' national payment systems, will serve to coordinate compliance, foreign exchange conversion, message translation and the sequencing of payments among all participants. These gateways will be predicated on a common set of technical standards, functionalities and operational guidelines set out within the proposal. • An overarching Nexus Scheme that sets out the governance framework and rulebook for participating retail payment systems, banks and payment service providers to coordinate and effect cross-border payments through the network. <p>Under the Nexus blueprint, participating countries will only need to adopt the Nexus protocols once to gain access to the broader cross-border payments network. This removes the need for countries to negotiate payment linkages with each jurisdiction on a bilateral basis.</p>

	<p>Benoît Cœuré, Head of the BIS Innovation Hub, said, “Project Nexus is trying to achieve the equivalent of internet protocols for payments systems. That means creating a model through which any country can join by adopting certain technical and governance requirements.”</p> <p>The Nexus blueprint was developed through extensive consultation with multiple central banks and financial institutions across the globe. It builds on the pioneering bilateral linkage between Singapore's PayNow and Thailand's PromptPay, launched in April 2021, and benefits from the experience of the National Payments Corporation of India's (NPCI) development and operation of the Unified Payments Interface (UPI) system¹. The blueprint can be built upon through continued research and engagement with regulators, payment operators, banks and other industry participants collaborating towards a technical proof-of-concept.</p> <p>Andrew McCormack, Head of the BIS Innovation Hub Singapore Centre, said, “country-to-country and regional payment connections already exist. But they require significant coordination efforts, which increase exponentially with more participants. Three countries require three bilateral links but 20 countries would require 190 bilateral links.”</p> <p>Arif Khan, Chief Digital Officer, NPCI, said, “this blueprint will bring like-minded regulators and instant payments operators along with global bodies like the G20 and the Committee on Payments and Market Infrastructures (CPMI) together to make real-time cross-border payments a reality in the next two to four years.”</p> <p>Sopnendu Mohanty, Chief FinTech Officer, MAS, said, “to achieve significant cost-reduction in cross-border payment transfers, enhancements must be made on two fronts: direct connectivity between domestic faster payment systems, and frictionless foreign exchange on shared common wholesale settlement infrastructures. The BIS Innovation Hub Singapore Centre is working on both. The Nexus project maps out a much-needed set of standards to achieve seamless cross-border payment systems connectivity”.</p> <p>Published 28 July</p>
--	---

Financial Action Task Force (FATF)

<p>Opportunities and Challenges of New Technologies for AML/CFT</p>	<p>On 1 July, the FATF released a report on the opportunities and challenges of new technologies for Anti-Money Laundering (AML) and Countering Terrorist Financing (CTF). The report aims to increase awareness of and identify opportunities to leverage emerging and existing technology-based solutions. It identifies the conditions, policies and practices that can help support the development and adoption of new technologies that contribute to the efficiency and effectiveness of AML/CFT. The report also examines the obstacles that could stand in the way of successful implementation of new technology.</p> <p>The report identified the following challenges in implementing new technologies for AML/CTF:</p> <ol style="list-style-type: none"> 1. <u>Regulatory obstacles</u> <p>Some supervisors are still at the early stages of developing expertise and resources to properly understand and supervise new technologies. Even when supervisors do understand the interpretability and explainability of new technologies, the regulatory practices still need to be adjusted to the conditions of new AML/CFT technologies. Technology will not improve effectiveness without accurate and high quality data. The optimal use of new technologies for AML/CFT relies on data that is easier for technology developers to integrate into their tools, easy to understand and explain to</p>
--	---

non-experts, and easy to communicate to counterparts and competent authorities when needed.

2. Operational challenges

This relates mostly to adapting practices to new technologies. Developing and implementing new technologies requires a significant investment. It often means replacing legacy systems with the new tools. And investing in developing the necessary skills to understand the technology and to train additional staff. Replacing or updating legacy systems can be complex and expensive. This makes it challenging for both industry and government to exploit the potential of innovative approaches to AML/CFT. For industry, the cost-benefit analysis stemming from a lack of regulatory incentives, whether real or perceived, continues to pose an obstacle to a greater uptake of innovative solutions for AML/CFT. Difficulties with the explain-ability and interpretability of digital solutions are another key challenge for both industry and regulators. In part, this can be due to the limited availability of relevant expertise and some lack of awareness of innovative technologies' potential among AML/CFT professionals, both in industry and government.

3. Unintended consequences of new technologies

These include ethical and legal issues, which can arise from a misguided implementation of these tools. New technologies must be adopted in a responsible, proportionate and risk-based approach manner, which maximises effectiveness gains whilst ensuring financial inclusion and data protection and privacy.

The report had the following recommendations:

1. Creating an enabling environment by both government and the private sector for responsible innovation to enhance AML/CFT effectiveness.
2. Ensuring privacy and data protection when implementing new technologies.
3. Promoting AML/CFT innovation which supports financial inclusion by design.
4. Developing and communicating policies and regulatory approaches to innovation that are flexible, technology-neutral, and outcomes-based and in line with the risk-based approach.
5. Exercising informed oversight by supervisors.
6. Promotion and facilitation of international Cooperation.

The full report can be read [here](#).

Published 1 July

Second 12-Month review of revised FATF standards on virtual assets and VASPs

On 5 July, the FATF announced that it had completed a second 12-month [review](#) of the implementation of its revised Standards on virtual assets and virtual asset service providers. This comes two years after the FATF finalized amendments, which clearly placed anti-money laundering and counter-terrorism financing (AML/CFT) requirements on virtual assets and virtual asset service providers (VASPs).

This review looks at how jurisdictions and the private sector have implemented the revised Standards since the FATF's [first 12-month review](#). It also looks at changes in the typologies, risks and the market structure of the virtual assets sector. The report finds that many jurisdictions have continued to make progress in implementing the revised FATF Standards. Fifty-eight out of 128 reporting jurisdictions advised that they have now implemented the revised FATF Standards, with 52 of these regulating VASPs and 6 of these prohibiting the operation of VASPs. The other 70 jurisdictions have not yet implemented the revised Standards in their national law. These gaps in implementation mean that there is not yet a global regime to prevent the misuse of virtual assets and VASPs for money laundering or terrorist financing. While the supervision of VASPs and implementation of AML/CFT obligations by VASPs is generally emerging, there is evidence of progress. In particular, there has been progress in the development of technological solutions to enable the implementation of the 'travel rule' for VASPs. However, the lack of implementation of travel rule requirements by jurisdictions is acting as disincentive to the private sector, particularly VASPs, to invest in the necessary technology solutions and compliance infrastructure to comply with the 'travel rule'.

The report also includes market metrics on peer-to-peer transactions (i.e. virtual asset transfers that occur without a VASP), based on input from seven blockchain analytic companies. The report finds that the market metrics work indicates that a potentially significant amount of virtual assets is transferred on a peer-to-peer basis. The share of illicit transactions also appears potentially higher for peer-to-peer transactions, in number and USD volume compared with transactions with VASPs, at least in terms of direct transactions. However, there were substantial differences in the data provided by the blockchain analytic companies. As a result, the size of the peer-to-peer sector and its associated ML/TF risk remains unclear. The report therefore does not find clear evidence of a shift towards peer-to-peer transactions.

Going forward, all jurisdictions need to implement the revised FATF Standards, including travel rule requirements, as quickly as possible. The FATF will undertake the following actions focused on virtual assets and VASPs.

The FATF will:

1. focus on implementing the current FATF Standards on virtual assets and VASPs, including through finalising the revised FATF Guidance on virtual assets and VASPs by November 2021;
2. accelerate the implementation of the travel rule; and
3. monitor the virtual asset and VASP sector, but not further revise the FATF Standards at this point in time (except to make a technical amendment regarding proliferation financing).

The full report can be read [here](#).

Published 5 July

Contact details:



Hannah Meakin

Partner and co-head of FinTech regulation
London
Norton Rose Fulbright LLP
Tel +44 20 7444 2102
Hannah.Meakin@nortonrosefulbright.com



Etelka Bogardi

Partner and head of FinTech SE Asia
Hong Kong SAR
Norton Rose Fulbright Hong Kong
Tel +852 3405 2578
Etelka.Bogardi@nortonrosefulbright.com



Sean Murphy

Partner and global head of FinTech
London
Norton Rose Fulbright LLP
Tel + 44 20 7444 5039
Sean.Murphy@nortonrosefulbright.com



Peter Mulligan

Partner and head of FinTech Australia
Sydney
Norton Rose Fulbright Australia
Tel +61 2 9330 8562
Peter.Mulligan@nortonrosefulbright.com



Caroline Herkströter

Partner
Frankfurt
Norton Rose Fulbright LLP
Tel +49 69 505096 444
caroline.herkstroeter@nortonrosefulbright.com



Floortje Nagelkerke

Partner and head of FinTech regulation
Amsterdam
Norton Rose Fulbright LLP
Tel +31 20 462 9426
Floortje.Nagelkerke@nortonrosefulbright.com



Stephen Aschettino

Partner and head of FinTech, US
New York
Norton Rose Fulbright US LLP
Tel +1 212 318 3282
Stephen.Aschettino@nortonrosefulbright.com



Stella Cramer

Partner and head of FinTech NE Asia
Singapore
Norton Rose Fulbright (Asia) LLP
Tel +65 6309 5349
Stella.Cramer@nortonrosefulbright.com



Tim Stewart

Of Counsel
Toronto
Norton Rose Fulbright Canada LLP
Tel +1 416 216 3985
Tim.Stewart@nortonrosefulbright.com



Desiree Reddy

Director and head of FinTech
South Africa
Norton Rose Fulbright South Africa Inc
Tel +27 11 685 8673
Desiree.Reddy@nortonrosefulbright.com

Click below to download our podcast to hear about more global FinTech news



Disclaimer: References to 'Norton Rose Fulbright', 'the law firm' and 'legal practice' are to one or more Norton Rose Fulbright members or to one of their respective affiliates (together 'Norton Rose Fulbright entity/entities'). No individual who is a member, partner, shareholder, director, employee or consultant of, in or to any Norton Rose Fulbright entity (whether or not such individual is described as a 'partner') accepts or assumes responsibility, or has any liability, to any person in respect of this update. Any reference to a partner or director is to a member, employee or consultant with equivalent standing and qualifications of the relevant Norton Rose Fulbright entity. The purpose of this update is to provide information as to developments in the law. It does not contain a full analysis of the law nor does it constitute an opinion of any Norton Rose Fulbright entity on the points of law discussed. You must take specific legal advice on any particular matter which concerns you. If you require any advice or further information, please speak to your usual contact at Norton Rose Fulbright.