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WFE Response to the Global Financial Innovation Network (GFIN) Consultation Document



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Background

The World Federation of Exchanges (WFE) is the global trade association for exchanges and clearing houses, representing more than 200 Market Infrastructure Providers. Our members include exchange groups and standalone CCPs.¹

Our members are both local and global, operating the full continuum of market infrastructures in both developed and emerging markets. Of our members, 36.8% are in Asia-Pacific, 42.6% in EMEA and 20.6% in the Americas. WFE exchanges are home to nearly 45,000 listed companies, and the market capitalisation of these entities is over \$82.5 trillion; around \$81.8 trillion (EOB) in trading annually passes through the infrastructures WFE members safeguard.²

The WFE works with standard setters, policy makers, regulators and government organizations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system, which is critical to enhancing investor and consumer confidence, and promoting economic growth.

FinTech matters have been – and continue to be – a matter of great priority for our membership, and one in which significant time, effort and money has been invested. We therefore welcome the opportunity to offer our perspectives and further contribute to the dialogue in order to secure the shared objectives of fair and orderly markets that promote the safety and resilience of the global financial system. For further information, please contact:

- Nandini Sukumar, Chief Executive Officer, WFE (nsukumar@world-exchanges.org)
- Richard Metcalfe, Head of Regulatory Affairs, WFE (rmetcalfe@world-exchanges.org)
- Annika Sagoo, Regulatory Affairs Associate, WFE (asagoo@world-exchanges.org)

Executive Summary

The WFE applauds the GFIN's objective of continuing to explore the idea of a "global sandbox", as well as considering ways in which financial service regulators can work and collaborate in order to balance the benefits of innovation with traditional policy objectives. We believe the initiative is well thought through and indeed welcomed given the various ambiguities within the space.

We note that while supervisors should co-ordinate and defer to each other, FMIs should also have room to think about what works best for them individually. Generally, it is important that authorities are proactively engaging with the industry to identify the nature of these sorts of applications, to understand the technology which underpins it, and to work with the market to ensure the existence of an appropriate regulatory framework (if existing frameworks are not deemed appropriate). In this regard, regulatory sandboxes and innovation hubs have proven to be a useful tool for the FinTech industry by allowing businesses to test the use of innovative products, services and applications, while ensuring investor protection and promoting responsible innovation to improve the quality, resiliency and competitiveness within markets – as can be seen, for example, in Canada, the UK and Australia.^{3,4,5}

We welcomed the GFIN's initiative to extend these initiatives globally to ensure that appropriate collaboration and exchange of information occurs between industry (whether regulated, or not) and regulator. This move to greater cross-border information sharing will also enable regulatory applications to be tested and examined before they go to market ensuring minimal disruption and a shared understanding of global regulatory expectations for market participants.

¹ The WFE membership list [can be found here](#)

² As at end 2017

³ Canada (CSA): https://www.securities-administrators.ca/industry_resources.aspx?id=1588

⁴ UK (FCA): <https://www.fca.org.uk/firms/regulatory-sandbox>

⁵ Australia (ASIC): <https://asic.gov.au/for-business/your-business/innovation-hub/regulatory-sandbox/>

Questions

1. ***Do you agree with the proposed Mission Statement for the GFIN?***

The WFE agrees with the proposed Mission Statement for the GFIN. We believe it is broad and flexible enough for future adaptation if necessary. Taking note that the GFIN is not designed to replace or duplicate the role of international financial services standard setting bodies or other international organisations, the Mission Statement might benefit from further specifying the relationship with such institutions.

2. ***Do you agree with the three main proposed functions for the GFIN?***

We agree with all three main proposed functions for the GFIN.

As an aside, regarding function B “*joint policy work and regulatory trials*”, we note that this may be difficult to implement, unless a framework can be put in place to ensure effective and equal input at the national level (given the nature of cross-jurisdictional collaboration); but as a principle it generally makes sense.

3. ***What aspects/areas of regulation pose the biggest challenge when it comes to innovating?***

We can observe especially with regards to rapidly growing areas such as, standard setting for Artificial Intelligence, Machine Learning, Digital Ledger Technology (DLT) and Cloud Infrastructure (as well as for crypto-assets and initial coin offerings (ICOs)) that there is a general lack of clarity as regards applicable legislation. The resulting uncertainty is challenging for innovative firms developing new products and services, and may result in reputational risks, as uncertainty in regulation can appear to blur the line to dubious offers. Innovation in this space is much faster than that of regulation and it often appears as though regulators are on the back foot. Establishing an ongoing forum for dialogue between regulators and the industry can contribute to addressing this uncertainty.

While we note that one of the major challenges is that regulations usually lag behind financial innovations, some large IT companies that are not within the regulatory scope of local financial regulators, are expanding their business to financial services. Such activities may pose certain regulatory risks since there are challenges and obstacles for financial regulators to monitor their daily financial business operations.

Additionally, FMIs have the organisational framework for and expertise with integrity, stability, and fairness and are developing innovative technology, yet new entrants are also developing innovative technology without the same experience or organisational framework. Regulatory regimes need to build on FMIs’ expertise and frameworks as a precondition to ensure appropriate consistency between new firms and traditional regulated entities such as exchanges and CCPs. This is a precondition for maintaining the integrity, stability and fairness of the financial system. Current regulations are scrutinised as they seek to be implemented under the premise that participants already understand what is required of them. However, there is a perceived lack of information around what participants need to do in order to abide by such regulations.

Given the significant changes the financial industry is undergoing because of technological innovation, regulators need to take a balanced approach. In order to ensure long-term financial stability while facilitating innovation and scalability, it is important to foster technological neutrality in regulatory and supervisory approaches. However, that is why regulatory sandboxes have been praised and initiatives from the GFIN are well received.

4. ***Do you see any reasons why this initiative may be counterproductive to the outcomes it is seeking to achieve?***

While we are optimistic about the potential outputs from this initiative and see no outright reason why it may be counterproductive, there are some concerns to consider. Given the variety in developmental status and characteristics in each jurisdiction, the major concerns for FinTech across regulators may differ. One essential requirement for the positive outcome of the initiative is to find common interests among regulators, and after adequate communication, achieve some sort of consensus on a regulatory approach. Yet, this may develop into a long and complex process.

To add, it is ideal if universal guidance at the international level can be obtained in the future. However, guidance that is too general may fail to provide any constructive guidance for the industry.

5. 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?

We are aware that there are other organisations, groups and networks focusing on other areas of FinTech, such as data harmonisation. As such, we believe the focus for this initiative should remain on financial innovation.

6. 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?

Markets are international, and FinTech innovation is likely to have global applications and uses. As such it is desirable to have global consistency based on international guidelines and principles. We therefore agree with the approach to involve global standard setting bodies as part of the GFIN, as there should be collaboration at the international regulatory organisation level to develop a common approach and understanding. Yet, the involvement may be better suited to occur at the later stages of development for any standards and/or guidelines.

A globally fragmented approach to regulation – as opposed to a globally coordinated one – leaves the door open to a lack of coherence in the implementation of internationally agreed policy at any such level jurisdiction by jurisdiction. This in turn can lead to unintended consequences, including market fragmentation, unduly burdensome implementation challenges and an overarching policy framework that is, at times, internally contradictory. Achieving regulatory coherence on the other hand is important because financial markets are critical for economic growth and sustainable development. Dissonance adds costs, slows innovation, threatens stability, impedes competition, and reduces choice for end-users.

Notwithstanding the proactive nature of regulatory scrutiny from national and regional authorities, we believe it highly desirable for a globally harmonised policy approach in a topic as internationally relevant as financial innovation and FinTech more broadly. We stress once more that it would be more productive for national regulatory authorities to defer to their fellow regulators in the context of *internationally agreed frameworks and co-operation*. In order to effectively represent the views of national jurisdictions and regulators, global regulators should take into account those views when forming any standards and/or guidelines.

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

No comment.

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

No comment.

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

We agree with the proposed approach to managing the application process for cross-border trials.

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

We look forward to understanding the challenges in this space from the perspective of the regulators.