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FinTech Regulatory Developments – Q2 2020

IOSCO: report on how existing regulatory principles could apply to stablecoins

On 23 March 2020, IOSCO published a report identifying the possible implications of global stablecoin initiatives for securities markets regulators. The report entitled Global Stablecoin Initiatives (hereinafter "the Report") examines the regulatory issues arising from the use of global stablecoins and explores how existing IOSCO Principles and Standards could apply to these arrangements. IOSCO´s Fintech Network prepared the Report as part of an effort to evaluate global stablecoin proposals from a securities market regulator´s perspective. 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.

ESRB publishes report on systemic cyberattacks

On 19 February 2020 the ESRB published a report on cyber incidents, such as cyberattacks. The report, which also summarises the latest estimates of the costs of cyber incidents, shows that a cyber incident could indeed evolve into a systemic cyber crisis that threatens financial stability. The ESRB has therefore identified cyber risk as one of the sources of systemic risk to the financial system which could have serious negative consequences for the real economy. While the total costs of cyber incidents are notoriously hard to establish, recent industry estimates range from USD 45 billion to USD 654 billion for the global economy in 2018. Cyber risk is characterised by three features that, when combined, make it fundamentally different from other sources of operational risk: the speed and the scale of its propagation, and the potential intent of perpetrators.

IOSCO: key considerations for regulating crypto-asset trading platforms

On 12 February 2020, the Board of IOSCO issued a report that describes the issues and risks associated with crypto-asset trading platforms (CTPs) and sets out key considerations to assist regulatory authorities in addressing these issues. The Final Report describes issues and risks identified to date that are associated with the trading of crypto-assets on CTPs. In relation to the issues and risks identified, it describes key considerations and provides related toolkits that are useful for each key consideration. These key considerations and toolkits are intended to assist regulatory authorities who may be evaluating CTPs within the context of their regulatory frameworks. The key considerations relate to Access to CTPs, Safeguarding participant assets, Conflicts of interest, Operations of CTPs, Market integrity, Price discovery, and Technology.

BIS: working paper on fintech and financial inclusion

On 12 February 2020, the BIS released a working paper on FinTech and financial inclusion. The paper shows that the unit cost of financial intermediation has fallen since the Great Financial Crisis, concluding that fintech has made the financial sector more efficient. It then develops a simple model of robo-advising, showing that fintech's net effect on welfare crucially depends on the type and size of fixed costs it entails. Even if there is an overall increase in participation, various income groups might be affected differently. Finally, the author analyses the impact of big data on discrimination. Based on a model that features a new technology to analyse non-traditional consumer data, the author concludes that big data and machine learning will probably reduce human biases against minorities, but at the same time erode the effectiveness of existing regulations.

IMF: Cyber Risk Surveillance: A Case Study of Singapore

On 10 February 2020, the IMF published the report Cyber Risk Surveillance: A Case Study of Singapore. The Cyber risk is an emerging source of systemic risk in the financial sector, and possibly a macro-critical risk too. It is therefore important to integrate it into financial sector surveillance. This paper offers a range of analytical approaches to assess and monitor cyber risk to the financial sector, including various approaches to stress testing. The paper illustrates these techniques by applying them to Singapore. As an advanced economy with a complex financial system and rapid adoption of fintech, Singapore serves as a good case study. We place our results in the context of recent cybersecurity developments in the public and private sectors, which can be a reference for surveillance work.

BIS: the economic forces driving fintech adoption across countries

On 4 February 2020, the BIS published a report looking at how agents in different economies around the world are adopting financial technology ("fintech"). This paper reviews the evidence. In some economies, especially in the developing world, adoption is being driven by an unmet demand for financial services. Fintech promises to deliver greater financial inclusion. In other economies, adoption can be related to the high cost of traditional finance, a supportive regulatory environment, and other macroeconomic factors. Finally, demographics play an important role, as younger cohorts are more likely to trust and adopt fintech services. Where fintech helps to make the financial system more inclusive and efficient, this could benefit economic growth. Yet the market failures traditionally present in finance remain relevant, and may manifest themselves in new guises.

BIS: policy responses to fintech: a cross-country overview

On 30 January 2020, the BIS released a report looking at different approaches to FinTech developments from financial authorities. Based on survey responses from around 30 jurisdictions, the paper provides a cross-country overview of policy responses to fintech developments. In addition, building on the work by global standard-setting bodies and other international organisations, the paper proposes a conceptual framework through which to analyse policy responses to fintech, referred to as the "fintech tree". The fintech tree identifies three categories: fintech activities, enabling technologies and policy enablers.

BIS: impending arrival – a sequel to the survey on central bank digital currency

On 23 January 2020, the BIS CPMI published the report Impending arrival – a sequel to the survey on central bank digital currency. The survey asked central banks about (i) their current work on CBDCs; (ii) what motivates that work; and (iii) how likely they are to issue a CBDC. One year on, the survey has been re-run. Most central banks are still working to understand the implications for their jurisdiction and a significant minority representing a fifth of the world's population look likely to issue a CBDC very soon. This survey gives a global overview of work under way, showing that emerging market economies (EMEs) report stronger motivations and a higher likelihood that they will issue CBDCs. At the same time, so-called cryptocurrencies remain a niche means of payment.

BIS: central bank group to assess potential cases for central bank digital currencies
On 21 January 2020, the BIS issued a press release stating that the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Sveriges Riksbank and the Swiss National Bank, together with the Bank for International Settlements (BIS), have created a group to share experiences as they assess the potential cases for central bank digital currency (CBDC) in their home jurisdictions. The group will assess CBDC use cases; economic, functional and technical design choices, including cross-border interoperability; and the sharing of knowledge on emerging technologies. […] The group will be co-chaired by Benoît Cœuré, Head of the BIS Innovation Hub, and Jon Cunliffe, Deputy Governor of the Bank of England and Chair of the CPMI.

OECD: The Tokenisation of Assets and Potential Implications for Financial Markets
On 17 January 2020, the OECD published a report on the tokenisation of assets, involving the digital representation of real (physical) assets on distributed ledgers, or the issuance of traditional asset classes in tokenised form. The report highlights that further adoption of DLTs in the financial markets would be incentivised by measurable efficiencies and related cost reductions that are sufficiently large to cover the investment required for the transition to an on-chain environment; increases in safety, resilience and trust; reduction in complexity and disintermediation; by the absence of existing trading infrastructure for the asset or the existence of large inefficiencies in such markets. Wider adoption of asset tokenisation at a large scale might therefore be more easily envisaged in niche markets with limited liquidity and multiple layers of intermediation, such as such as SME or start-up equity and debt financing (e.g. private placement of non-listed securities/participation in private limited liability companies, small-sized issuance of bonds or the tokenisation of private equity/venture capital funds).

EBA report identifies key challenges in the roll out of Big Data and Advanced Analytics
On 13 January 2020, the EBA published a report on the recent trends of Big Data and Advance Analytics (BD&AA) in the banking sector and on the key considerations in the development, implementation and adoption of BD&AA. The aim of this assessment is to share knowledge among the stakeholders and, in particular, to ensure regulators and supervisors are well informed on the developments, in an effort to support technological neutrality across the regulatory and supervisory approaches. The need for necessary competence is becoming increasingly important, raising an important challenge for institutions, supervisors and regulators. Training and development, as well as closer engagement between the relevant stakeholders, could be an appropriate starting point for addressing this challenge.

ECB: tiered CBDC and the financial system
On 3 January 2020, the ECB released the report Tiered CBDC and the financial system. IT progress and its application to the financial industry have inspired central banks and academics to analyse the merits of central bank digital currencies (CBDC) accessible to the broad public. This paper first reviews the advantages and risks of such CBDC. It then discusses two prominent arguments against CBDC, namely (i) risk of structural disintermediation of banks and centralization of the credit allocation process within the central bank and (ii) risk of facilitation systemic runs on banks in crisis situations. Two- tier remuneration of CBDC is proposed as solution to both issues, and a comparison is provided with a simple cap solution and the solution of Kumhof and Noone (2018). Finally, the paper compares the financial account implications of CBDC with the ones of crypto assets, Stablecoins, and narrow bank digital money, in a domestic and international context.

Prepared by:

Gabriel Callsen
gabriel.callsen@icmagroup.org

Rowan Varrall
rowan.varrall@icmagroup.org

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