

European Forum for Innovation Facilitators (EFIF)

Summary of the September 2019 meeting¹

Opening remarks

Piers Haben, Director, Banking Markets Innovation and Consumers, EBA, welcomed members and observers to the event.

It was recalled that the ESAs identified in their January 2019 report on regulatory sandboxes and innovation hubs² significant progress in the establishment of these schemes at the national level. However, the ESAs also observed relatively limited communication and cooperation between these initiatives - an issue which could impede the scaling up of FinTech in the EU.

With the full support of the European Commission, the EFIF has been established by the ESAs to address this issue by providing a platform for supervisors from across the financial sector:

- to share experiences from engagement with firms through innovation facilitators,
- to share technological expertise, and
- to reach common views on the regulatory treatment of innovative products, services and business models, overall boosting bilateral and multilateral coordination.

This enhanced engagement between supervisors is intended to foster the development of a common regulatory and supervisory response through regular information exchange and discussion. It is also intended to help accelerate the identification of any areas in which action may be needed to address risks to consumers, market integrity or financial stability or to address recurrent obstacles or gaps impeding the scaling up of FinTech across the EU.

¹ Hosted at the EBA's premises, Paris.

² <https://eba.europa.eu/-/esas-publish-joint-report-on-regulatory-sandboxes-and-innovation-hubs>.

The September EFIF event enabled members and observers to:

- learn about any developments in the design and operation of innovation facilitators and how to overcome key challenges in their functioning;
- hear from private sector participants about their experiences of engaging with innovation facilitators, in particular with respect to tokenisation, DLT, AI, Big Data and machine learning solutions;
- discuss the regulatory treatment of stablecoins, drawing on experience acquired in the context of innovation facilitators.

Innovation facilitators: Developments

Members provided:

- an update on developments since the January 2019 joint ESA report on regulatory sandboxes and innovation hubs; and
- an overview of trends in observed technologies and innovations.

Three jurisdictions outlined proposals to establish new innovation hubs; five jurisdictions outlined their proposals to establish new regulatory sandboxes. One jurisdiction outlined its proposals to establish a sandbox dedicated to the Blockchain, engaging supervisors and regulatory authorities from within and outside the financial sector. One jurisdiction outlined its consultation on a cross-sector sandbox.

All innovation facilitators operational to date were reported as being well-utilised by market participants from across the financial sector (banking, insurance and securities and markets), with innovation hubs receiving between 20-400 enquiries a year from regulated and unregulated firms.

Members have adopted a variety of approaches in implementing their innovation facilitators, with the majority relying on a ‘hub and spoke’ model to catalyse expertise in relevant divisions of the competent authority (e.g. authorisations, governance, AML/CFT).

In terms of trends, members reported innovation facilitators being used in relation to applications involving:

- AI, Big Data and machine learning;
- cloud storage;

- crypto-assets, including so-called stablecoins;
- distributed ledger technologies (DLT) such as Blockchain;
- RegTech solutions (e.g. in relation to customer due diligence).

Members also reported the use of innovation hubs for queries relating to:

- PSD2, in particular, as regards the process to obtain a licence to carry out the new types of regulated activity established under that Directive (account information services and payment initiation services);
- registration or licencing applications depending on the approach of the Member State to the implementation of AMLD5 which creates two new forms of obliged entity for AML/CFT purposes (virtual currency custodian wallet providers and exchanges of virtual currencies to fiat currency);
- platforms and their regulatory treatment.

Members agreed that, although the labels of ‘innovation hub’ and ‘regulatory sandbox’ are useful for the purposes of categorising schemes for the sake of comparison, in reality the labels are not terribly useful. As financial innovations are being increasingly adopted in the financial sector, members are adjusting their methods to bridge competent authorities and firms, for instance by entering into partnerships to test potential RegTech and SupTech applications in ‘accelerators’.

An updated list of innovation facilitators will be maintained on the EFIF page of the Joint Committee website.³

Innovation facilitators: Design optimisation

Members exchanged of views on addressing operational challenges, focussing on how to:

- create efficiencies in responding to enquiries submitted to innovation hubs;
- streamline admissions procedures for regulatory sandboxes;
- bridge innovation facilitators and other authorities on issues beyond the mandates of the competent authorities (e.g. data protection);
- capitalise on ‘lessons learned’ from interactions in innovation facilitators and means to promote transparency towards market participants.

³ <https://esas-joint-committee.europa.eu/Pages/Activities/EFIF/European-Forum-for-Innovation-Facilitators.aspx>

It was concluded that more should be done to promote transparency and that members would share best practices.

Tokenisation and DLT: Emerging trends and lessons learned from innovation facilitators

Members received presentations from market participants on propositions subject to enquiries in innovation hubs/testing in regulatory sandboxes and exchanged views on: lessons learned by competent authorities and firms, and market developments/future trends for tokenisation/DLT.

Members and market participants agreed that interactions in innovation facilitators can be mutually beneficial for competent authorities and firms by providing a greater proximity to innovative uses of technology in finance. This can enable competent authorities to respond in a more informed and timely way (e.g. clarifying or adapting regulation) and firms to have a better understanding of supervisory and regulatory expectations.

Presentations:

- Vic Arulchandran, COO, Nivaura
- Jacek Czarnecki, Global Legal Counsel, Maker Foundation
- Dante van Grafhorst, LLM, APG
- Laurens van Piggelen, MSc, APG
- Dotun Rominiyi, Blockchain Architect, London Stock Exchange Group

Stablecoins

Members received a presentation from Dr. Garrick Hileman, Head of Research, Blockchain.com and Research Associate, London School of Economics on the different types of so-called stablecoins.

It was observed that so-called stablecoins have mechanisms that are intended to contain fluctuations in value and may comprise:

- Pegged/Collateralised tokens: (pegged to fiat currencies (e.g. U.S. Dollars), commodities or other ‘real-world’ assets).
- Partly collateralized tokens
- Algorithmic tokens: value is controlled by an algorithm that issue and sell/buy-back and destroy the coins according to their trading value compared to another asset. This category is rare at present.

Members noted that stablecoins will qualify as ‘electronic money’ or as ‘financial instruments’ where they satisfy the relevant conditions under current EU law.

Members agreed that, like other crypto-assets, so-called stablecoins require regulatory assessment on a case-by-case basis as their characteristics vary.

Members also agreed to maintain a dialogue on so-called stablecoins and other forms of crypto-asset in order to promote a coordinated and consistent response and prevent regulatory arbitrage and forum-shopping.
