GFiN

GLOBAL FINANCIAL INNOVATION NETWORK

GFiN - ONE YEAR ON

The Global Financial Innovation Network reflects on its first year

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INTRODUCTION

Foreword from the GFiN Coordination Group

The Global Financial Innovation Network ("GFiN" or "Network") was created to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale and test new ideas. It also created a new means of co-operation between financial services regulators to work on innovation-related topics, sharing different experiences and approaches.

Since inception, the GFiN has continued to develop its mandate and to grow its membership; as of June 2019 there are 35 financial services regulators with full membership status and 7 Observers, including the IMF and the World Bank Group.

The GFiN is committed to advancing financial integrity, consumer wellbeing and protection, financial inclusion, and financial stability through innovation in financial services. We recognise that these goals are better achieved through collaboration. Therefore, the GFiN has committed to expanding its objectives from the original focus of facilitating responsible cross-border experimentation of innovative ideas to now include various other forms of regulatory collaboration.

The type of collaboration the GFiN aims to encourage is arguably new to many regulators. While regulators frequently work together through more traditional channels (for example, through supervisory colleges and standard setting bodies), the increasing amount and pace of innovation driven by technological advancements requires testing of new approaches to international cooperation.

The GFiN views the lack of a pre-established roadmap for this form of collaboration as an exciting opportunity and not a hindrance. It has presented our membership with an opportunity to rethink and reconsider how regulators can cooperate, and look at new structures for doing so, but does not aim to replace or replicate existing forums and standard setting bodies.

Importantly, we see the GFiN as an open initiative and continue to welcome interest from regulators and international organisations who have a passion for working on innovation issues.

With all this in mind, this "GFiN – One Year On" report has been prepared to reflect on what we have worked on since inception, including both our achievements and the challenges we have faced, as well as our ambitions for the future.

The GFiN has been delighted with the market support it has received thus far, for the continued feedback and the continually increasing regulatory membership. We hope that the GFiN continues to add value for consumers, innovative firms, policy makers and regulators in the future.

GFiN Coordination Group, June 2019

ASIC Australian Securities & Investments Commission

Central Bank of Bahrain

AUTORITÉ DES MARCHÉS FINANCIERS

Guernsey Financial Services Commission

HONG KONG MONETARY AUTHORITY 香港金融管理局

SECURITIES AND FUTURES COMMISSION 證券及期貨事務監察委員會

MAS Monetary Authority of Singapore

AIFC Astana International Financial Centre

DFSA Dubai Financial Services Authority

FCA FINANCIAL CONDUCT AUTHORITY

cfpb Consumer Financial Protection Bureau

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YEAR ONE

A. Creation of the GFiN

The beginning

In early 2018, the UK Financial Conduct Authority ("FCA") consulted on the idea of creating a "global sandbox," in response to regulators around the world having to adapt to the pace of innovation and technological change. At the same time, there were a growing number of innovative firms with propositions transcending jurisdictional boundaries. The key objectives of the global sandbox were to support innovative firms looking to test ideas in more than one jurisdiction and to promote coordination and collaboration between regulators on key emerging trends.

As the idea of establishing a global sandbox evolved throughout 2018, so did many of the details, as well as the potential operating model. In August, it was agreed to rename the initiative the Global Financial Innovation Network in order to better reflect the broader scope of the proposed activities, as well as to include a wider range of regulators who did not operate a sandbox but wanted to join the GFiN.

The GFiN recognised that there were many ways to approach supporting innovation and the sandbox was one regulatory tool among many. This resulted in a broadening of the potential membership and a more inclusive and farther-reaching global regulatory initiative.

Innovative approaches

GFiN members' approaches to innovation vary greatly in their structure and focus. Some have created regulatory sandboxes, while others have supported firms through an innovation department, an accelerator or by running TechSprints or hackathons.

The difference in approaches taken by regulators can cause challenges for innovative firms to move beyond borders and look to scale their ideas. Regulators recognise these challenges and believe that the creation of the GFiN will seek to promote a more efficient way for firms to interact with regulators and help them navigate between jurisdictions.

The tables in the following column give examples of members' approaches to innovation. Please note this list is not exhaustive and you should contact a regulator directly to better understand their approach to supporting innovation.

INNOVATIVE APPROACHES OF GFiN MEMBERS

Australian Securities & Investment Commission – "Innovation Hub"

The Australian Securities & Investment Commission (ASIC) Innovation Hub is at the heart of its response to, and engagement with, the opportunities presented by innovation. Through the Innovation Hub, ASIC provides practical support to FinTech and RegTech businesses as they navigate through Australia's financial regulatory system.

Dubai Financial Services Authority – "Innovation Programme"

The Dubai Financial Services Authority (DFSA) has created an Innovation Programme that works in partnership with Dubai International Financial Centre (DIFC) FinTech Hive, which runs regular accelerator programmes, events and also offers a co-working space in the DIFC.

A primary feature of the DFSA's Innovation Programme is the Innovation Testing Licence (ITL), which allows firms to develop and test innovative ideas without being initially subject to the full suite of regulatory requirements.

Hong Kong Monetary Authority

The Fintech Facilitation Office of the Hong Kong Monetary Authority (HKMA) adopts a pro-development approach and works closely with supervisors of banking and payment services and the industry to foster an ecosystem that supports innovation.

The HKMA also runs a Fintech Supervisory Sandbox to provide an efficient way for banks or innovative firms to interact with the regulators before the formal launch of their products. An Innovation Hub and an Accelerator platform are in place so that the industry may brainstorm innovative ideas and conduct proof-of-concept trials.

Monetary Authority of Singapore – "Singapore FinTech Festival"

The Monetary Authority of Singapore (MAS), in partnership with the Association of Banks in Singapore (ABS) and in collaboration with SingEx Holdings, organises the Singapore FinTech Festival (SFF). The SFF provides a global platform for the FinTech community to connect, collaborate and co-create.

Starting in 2016, the SFF has grown to be the largest FinTech event, globally, and in 2018 it attracted a record 45,000 attendees from 130 countries. The Festival also featured more than 250 speakers, almost 500 exhibitors - 60 percent of which were foreign - and 16 international pavilions.

In 2019, the SFF is evolving through strategic partnerships and expanding in terms of geographical reach and thematic scope. The Central Bank of Kenya (CBK) and MAS will hold the world's first Afro-Asia FinTech Festival in Nairobi, Kenya, from 15 to 16 July 2019. The 2019 SFF, from 11 November to 15 November, will be held at the same time as the Singapore Week for Innovation and Technology (SWITCH).

UK Financial Conduct Authority – "TechSprints"

TechSprints are events that bring together participants from across, and outside of, financial services to develop technology-based ideas or proofs of concept to address specific industry challenges. These events help to shine a light on issues and expand the discussion and awareness of potential solutions.

In May 2018, the UK Financial Conduct Authority's (FCA) held an AML & Financial Crime TechSprint focused on how new technology can be used to more effectively combat money laundering and financial crime. The event demonstrated that one of the keys to identifying and unlocking these complex networks is the ability for financial institutions, regulators and law enforcement to share data and knowledge.

The follow-up TechSprint, in July 2019, will investigate the potential for technology to allow for the sharing of this information and knowledge among relevant entities while remaining compliant with data protection laws.

B. Overview of key GFiN activities

The GFiN's first year was not without challenges. The ambitious nature of the GFiN initiative as well as the challenge of establishing its objectives and working out its structure and priorities, created a demanding schedule for members.

What started as an initial idea by the FCA to create a global sandbox has evolved into a group of 35 global regulators from 21 jurisdictions coming together to share their knowledge and market experiences and to provide innovative firms with the opportunity to interact and engage with a network of regulators simultaneously.

The key achievements that have underpinned the establishment of the GFiN and some key milestones from our first year in operation are set out below.

C. Development of the GFiN proposition

The inaugural GFiN consultation paper was issued in August 2018 to seek feedback on the role the GFiN should play in delivering its objectives, including the tools it should use, and where it should prioritise its activities.

The consultation also proposed three main GFiN workstreams. These were:

1. Acting as a **collaborative group** of regulators to cooperate and share experience of innovation in respective markets.
2. Providing a **forum for joint work** and regulatory trials (e.g. RegTech).
3. Providing firms with an environment in which to trial **cross-border solutions.**

"We believe that this network will help us build on our existing collaborations with international partners to support innovation on a global basis."

Ontario Securities Commission LaunchPad

"GFiN provides a platform for global regulators and the industry to collaborate on dealing with cross-border issues in a timely manner."

Hong Kong Monetary Authority

"Innovation has proven to be essential for advancing financial inclusion, as we have seen with mobile money, micro insurance and digital credit. By coordinating regulatory approaches towards innovation, the GFiN plays an important role in catalysing positive market change that can lead to more inclusive finance."

Consultative Group to Assist the Poor

"Sharing market knowledge and experience through this network helps us keep up with the innovative technologies transforming our markets."

Hong Kong Securities and Futures Commission

We received feedback on a range of issues including:

- recognition that the **GFiN's role would be different to global standard setting bodies** and a desire for further clarity on where the GFiN would fit in with these existing bodies and indeed other stakeholders (see Section D);
- requests regarding what the GFiN **work programme** would be and how we intend to move forward over the next year (see Section E);
- articulation of the **challenges facing innovative firms**, for example, regulatory divergence between jurisdictions, perception of regulators' desire to maintain the status quo, the perceived imbalance of how regulation applies to start-ups vs incumbents, and the costs of regulatory compliance (see Sections E & F);
- a desire to **improve the regulator-regulated dialogue** as many had a lack of understanding about how to engage with regulators and had difficulties in understanding the view of the regulator (see Section D);
- explanation of the **challenges in innovating and scaling-up on a cross-border basis** and requests for the ability to trial and scale new technologies in multiple jurisdictions (see Section F);
- support to focus on **RegTech trials and collaboration** (see Section E); and
- interest in growing the **GFiN's membership** across Europe, the US, China and in developing and emerging markets to ensure global representation (see Section D).

In order to address the feedback provided and discuss how we would respond to the suggestions and views received, the 12 founding GFiN members (in addition to several other organisations who expressed an interested in helping develop the idea further) met in Hong Kong in October 2018. The outcome of those discussions is set out in Sections D-F.

Please see the first GFiN Consultation Paper here.

MAP OF THE JURISDICTIONS THAT RESPONDED TO THE GFIN CONSULTATION

D. Development of the GFiN Governance and Membership

A core part of the inaugural GFiN meeting in Hong Kong in October 2018 was to discuss and agree the governance and membership model for the GFiN in response to the feedback given.

GFiN focus

We were clear that the GFiN would not replicate any of the global standard setting bodies, this was clearly articulated. Instead, GFiN members agreed that we would *build on and complement* the work the standard setting bodies were undertaking through targeted engagement, as set out in the Terms of Reference (ToR) and throughout this Report.

Additionally, we were very clear that the GFiN's goal was not to create harmonised regulatory standards across jurisdictions. Rather, it is about providing a space for regulators to discuss and interact and also to give innovative firms an avenue to test across borders.

GFiN governance

It was agreed that the GFiN governance would be overseen by a Coordination Group and underpinned by various workstreams. Membership of those workstreams would be made up of Members, Observers, and Other Stakeholders. (The workstreams are discussed in more detail in Section E).

- ***Members:*** national financial sector regulators and/or supervisors who have a commitment to supporting innovation in financial services. Members can join all workstreams as well as applying to be a Member of the Coordination Group (subject to approval).
- ***Observers:*** non-regulator GFiN participants such as intergovernmental international organisations, or governmental bodies, with an interest in innovation in financial services. Observers can join the RegTech and Collobration workstreams.
- ***Other Stakeholders:*** firms or organisations seeking to participate in cross-border testing or other private and for-profit institutions wishing to provide input to the GFiN to ensure its activities remain relevant and fit for purpose. While Stakeholders cannot join any of the workstreams, they may be offered the opportunity to provide input into the workstreams.

In the ToR, we aim to provide clarity and certainty where possible about our regulatory approach to innovation and how we will keep our stakeholders updated. We recognise the importance of providing easily accessible information about relevant contacts, information relating to innovative initiatives and signposting opportunities for support to our stakeholders. This is part of our commitment to transparency and being accountable to stakeholders.

Finally, during the GFiN Hong Kong meeting and in the following months, we discussed the challenges firms face in innovating and scaling-up on a cross-border basis. Our response was to launch the cross-border testing pilot (detailed in Section F). We see the pilot as a trial both for the GFiN members and for firms and believe it will inform the future work of the GFiN.

Please see our ToR here.

JOINING GFIN

We see the GFiN as an open and collaborative initiative and welcome interest from regulators and international organisations who are proactive and have a collaborative approach to working on innovation issues. If you are interested in joining the GFiN or wish to find out more, please email GFiN@fca.org.uk.

GFiN MEMBERSHIP AND GOVERNANCE STRUCTURE

E. GFiN workstreams

Following discussions on the consultation paper, the GFiN Members decided to take forward several workstreams to address the key themes. These workstreams are a core component of the GFiN initiative and we expect a significant amount of work in respect of regulatory collaboration, knowledge sharing, and testing to happen through them, or be facilitated for the broader membership through their work.

How the workstreams operate

- The Coordination Group has designated a Group Member to lead each of the workstreams.
- The workstreams are driven primarily by Members but some are supported by Observers and Other Stakeholders.
- Other Stakeholders may be invited to participate by the workstream leader and/or by responding to a public expression of interest on a GFiN Member's website.
- Each workstream is identifying its priorities and creating a work programme.
- Participation in the workstreams is entirely voluntary for Members.

DETAILS ON CORE GFiN GROUP AND WORKSTREAMS

Coordination Group

This group sets the overall direction, strategy and annual work programme of the GFiN and is currently being chaired by the FCA.

Membership is for two years and members meet twice a year to provide ongoing input and engagement into the workstreams.

Collaboration workstream

This workstream supports the Coordination Group and is looking at how best to enable regulators to collaborate and share experiences of innovation.

It is also a forum to discuss lessons learned and to provide guidance for firms on regulatory approaches to innovation.

Cross-border testing workstream

This workstream will run the cross-border testing of innovative products and services.

A pilot was launched in January 2019 with participating Members welcoming applications in February 2019 – eight firms were accepted for testing in May 2019.

Workstream members are eager to move quickly on the pilot as they recognise that speed to market is an issue for innovative firms.

RegTech & lessons learned workstream

This workstream is focusing on sharing RegTech knowledge*, collaborating on areas of mutual interest such as potential cross-jurisdictional efficiency (e.g. machine executable regulations) and sharing of resources through staff secondments. It may also include collaborating on other specific projects and events.

**The GFiN's work in this area may be limited for some Members given the scope of their regulatory remit.*

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F. The launch of the cross-border pilot

Consultation feedback indicated widespread support in creating an environment that allows innovative firms to simultaneously trial and scale new technologies in multiple jurisdictions, gaining real-time insight into how a product or service might operate in the market.

In order to facilitate this, the GFiN launched its cross-border testing cohort in January 2019 and invited firms to apply. We explained we were looking for firms interested in testing on a cross-border basis, who could be flexible and agile in their participation, and also who could provide the GFiN regulators with feedback on their experience.

Demand for the pilot was very strong. We received over 40 responses from a wide range of innovative firms wishing to test products and services on a cross-border basis. Applicants wished to test a range of innovative products and services relating to both regulated and unregulated sectors including RegTech offerings, retail investments, and crypto-asset related business models.

We agreed that a coordinated and collaborative approach was required in order to run the pilot and appointed a lead/coordinating regulator for each firm to manage questions, requests for additional information from firms, and to direct how the testing would be carried out.

The GFiN members are now working with the eight selected firms to develop testing plans. Firms that develop a suitable testing plan will then go on to take part in the pilot testing phase. Further information on the testing and the progress will be made available to the market during the course of the pilot.

Feedback from firms participating in the pilot will be extremely valuable in helping us with our longer-term vision to streamline the application and testing process. Although we recognise that the GFiN will not be able to remove every inefficiency of working between multiple markets and we are realistic about the challenges that lie ahead, we believe we must try to create something to improve efficiencies.

EARLY REFLECTIONS ON THE PILOT

LEVEL OF DEMAND FOR CROSS-BORDER TESTING

Prior to the launch of the cross-border pilot, market demand was unknown. The interest we received was a clear message from market participants that this is an area of interest across both regulated and unregulated markets.

THE NEED TO CREATE A STANDARD ASSESSMENT PROCESS

Following the high demand for cross-border testing, it is clear that we need to create a standardised assessment approach to assess eligibility to participate in cross-border testing. We are not far away from developing a more stream-lined process.

CLARITY ON WHAT THE GFiN WILL PROVIDE

We need to be clearer on what innovative firms can expect from regulators as part of a cross-border test, both in terms of the limitations of our involvement and what areas we can and cannot help in.

INCREASED COOPERATION BETWEEN REGULATORS

There was increased awareness between regulators of what innovative approaches were available in different jurisdictions and the type of activities regulators can and cannot support.

GFiN

REFLECTIONS

What the GFiN has learned from the last year

The establishment and development of the GFiN has been an experiment for us as well as those wishing to engage with or support us. We have learned a considerable amount over the past year and will keep improving how we operate and interact between ourselves and also with stakeholders. We will also keep exploring new regulatory approaches to cross-border collaboration.

G

Growth – we have grown our knowledge and understanding of how different regulators have adapted their regimes to encourage the provision of innovative products and services. By establishing both the RegTech and Collaboration workstreams, we expect that current and future GFiN members can leverage expertise. This enhanced knowledge sharing may also reduce the potential for regulatory arbitrage.

F

Flexible and adaptable – we have shown how we can be nimble and agile, having established and made the GFiN operational, issuing two consultation papers, appointing a Coordination Group, and enabling cross-border tests barely one year after the establishment of the GFiN. We will continue to listen to stakeholders in an effort to understand the challenges they are facing and attempt to address those needs.

i

Innovative and inclusive – we have shown a huge desire to be innovative and inclusive in the way we work together and also with our stakeholders. The launch of the cross-border pilot was a momentous development for the GFiN and shows we have the aspiration to be innovative in our approach to regulation, supervision, and cross-border testing.

N

Network – we have created a network of regulators committed to fostering innovation in the market and learning from each other in order to improve how we engage with the market and in explaining our approaches to regulation. We will continue to be responsive in the sense that the network learns and shares what it has learned in order to improve on existing regulatory approaches.

We must continue to evolve and remain conscious that the GFiN must not be complacent. As the pace of technological change increases it requires regulators to adapt to a new landscape and devise new ways of working together. There are still many areas to look at and in many ways our work is just beginning. We expect future challenges to include understanding and working with data privacy and data sharing requirements across many jurisdictions and regulators.

Finally, as interest in cross-border testing increases, we will need to consider how we deal with the growth in application numbers and how the process can be streamlined. The inaugural cross-border pilot will help us assess how to address this.

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NEXT STEPS

What is the GFiN planning next

The Co-ordination Group will meet twice a year to provide ongoing engagement and input in the direction, strategy and annual work programme for the workstreams. In 2019, the first Annual and Co-ordination Group meetings were held in London in May and the GFiN Co-ordination Group will be meeting again in Montreal in October. We are working to update stakeholders on these discussions and our future plans for the GFiN on an ongoing basis.

We intend to focus on formalising our approach for cross-border testing based on the learnings from the pilot programme. We are aware that speed to market is key for innovative firms and delays of only a few months can mean the difference between success and failure. Therefore, the GFiN endeavours to enable cross-border testing in a quick and efficient manner in order to help these firms.

We are also working together in our RegTech work stream on creating, for example, cross-jurisdictional tests and proofs of concept regarding supervisory technologies or technologies that facilitate compliance for regulated firms. We expect that the GFiN regulators, and indeed stakeholders, can learn from these trials and be in a position to implement the technology utilised.

In addition to these core workstreams, we are keen to remain agile and open to exploring new topics depending on the views of members. All GFiN members have the opportunity to propose a new workstream and to participate in those (and existing) workstreams.

A key part of the GFiN's work over the next year will also be to focus on how we can support emerging markets to help define, shape, and develop their respective regulatory markets approach to innovation. We believe that sharing best practice is incredibly important to help jurisdictions starting their innovation journey. We will continue to encourage regulators in those markets to join the GFiN in order to benefit from the information sharing and collaborative working environment.

Finally, we continue to be committed to having an open dialogue with stakeholders and the GFiN membership will continue to update their websites and make announcements to the market about key developments and consultations.

"The GFiN members strongly believe that cross-border cooperation through the network will work not only to help facilitate firm testing through our current pilot project, but also to enable the regulatory community to develop an increasingly collaborative approach going forward."

The GFiN Coordination Group

For any queries contact GFiN@fca.org.uk or your local regulator.

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