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Regulatory Issues Related to FinTech

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Outline

1. The Framework for analysis
2. How we applied the Framework
 - a) Case studies
 - b) Stock take of current regulatory approaches
3. Why does FinTech matter?
4. Issues meriting attention

The Framework



- I. Scope: classification of FinTech by primary economic functions
 - Focus on activities, not underlying technologies



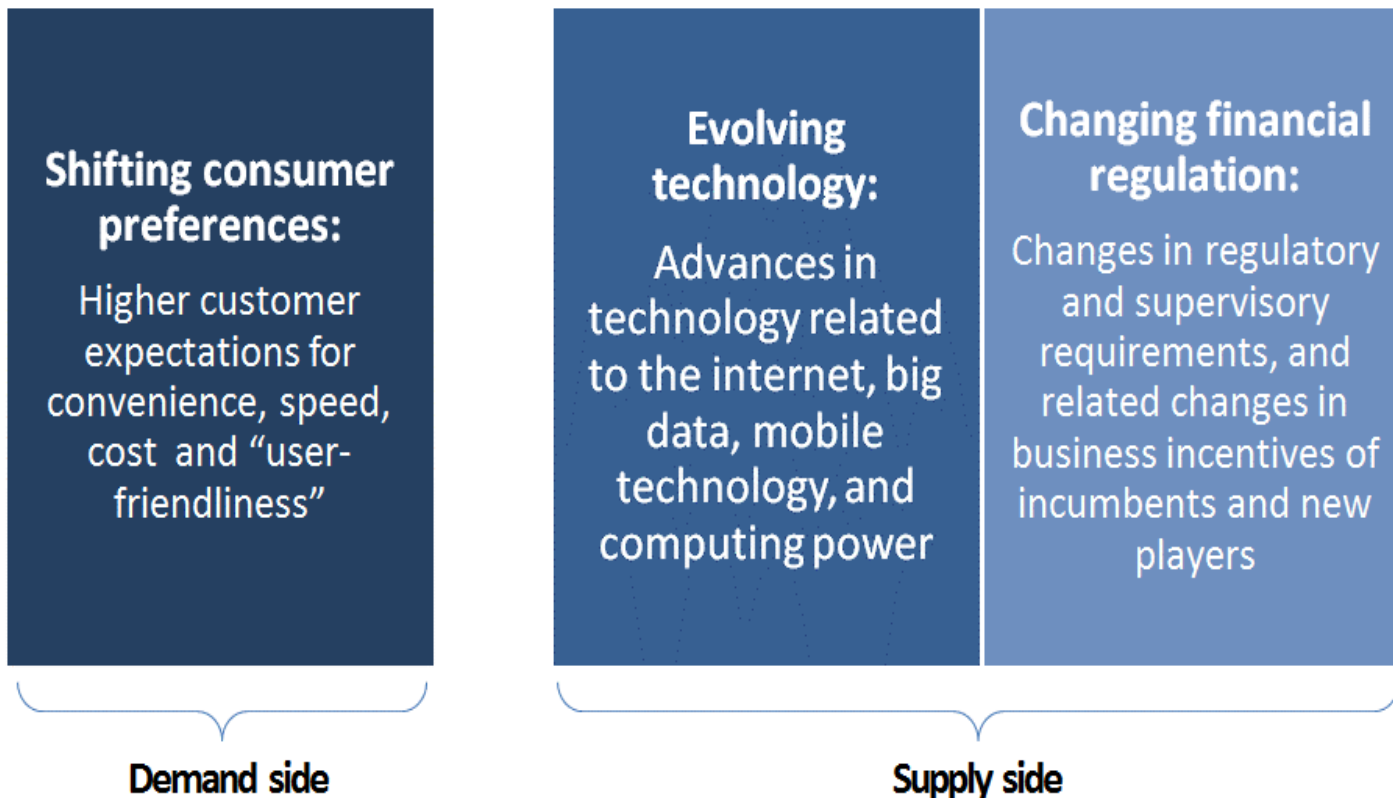
- II. Drivers of innovation and considerations for market structure

- III. Potential benefits and risks of FinTech innovations

- “Two-sided approach” to financial stability implications



Drivers of financial innovation



Impact on market structure

- Financial innovation may have material implications for market structure:
 - Level of **concentration** could be reduced given greater competition
 - Lower barriers to entry drive **contestability**
 - **Composition** of service providers may be affected due to the unbundling of financial services, new entrants

Case Studies

- Retail payments / digital wallets
- FinTech credit
- Robo-advisors
- DLT based wholesale payment systems
- Private digital currencies
- Artificial intelligence and machine learning

Regulatory approaches

- Action has been taken
 - A majority of jurisdictions (20 of 26) took or plan measures
 - Scope and scale of (planned) measures varies
- Policy objectives very focused on:
 - Consumer / investor protection, market integrity, inclusion;
 - Promoting innovation / competition (sandboxes, hubs, accelerators)
- Financial stability issues have not yet been a key driver of policy reforms

Issues meriting attention

1. Managing operational/cyber risks from third-party service providers
 - Not new, but prominence will likely increase
 - High concentration in the provision of cloud storage and related analytics
 - Fall outside regulatory perimeter
2. Governance and disclosure frameworks supporting big data analytics
 - AI/ML applications to large/novel data sets become more prevalent in lending and investing
 - Algorithms very complex, opaque
 - Ability to price risk untested over a full cycle
 - Concentration risk

Issues meriting attention

3. Monitoring developments in crypto currencies
 - Global financial stability risks currently judged low
 - AML/CFT, market integrity and investor protection
 - Monetary policy implementation and LOLR
 - Externalities related to cyber and operational risks
4. Cross-border legal considerations and regulatory coordination
 - Innovations in cross-border lending, trading and payment transactions
 - cross-jurisdictional compatibility of national legal frameworks
 - Regulatory arbitrage
 - DLT and smart contracts may not necessarily be designed to be compliant in all jurisdictions

Comments and Questions

