

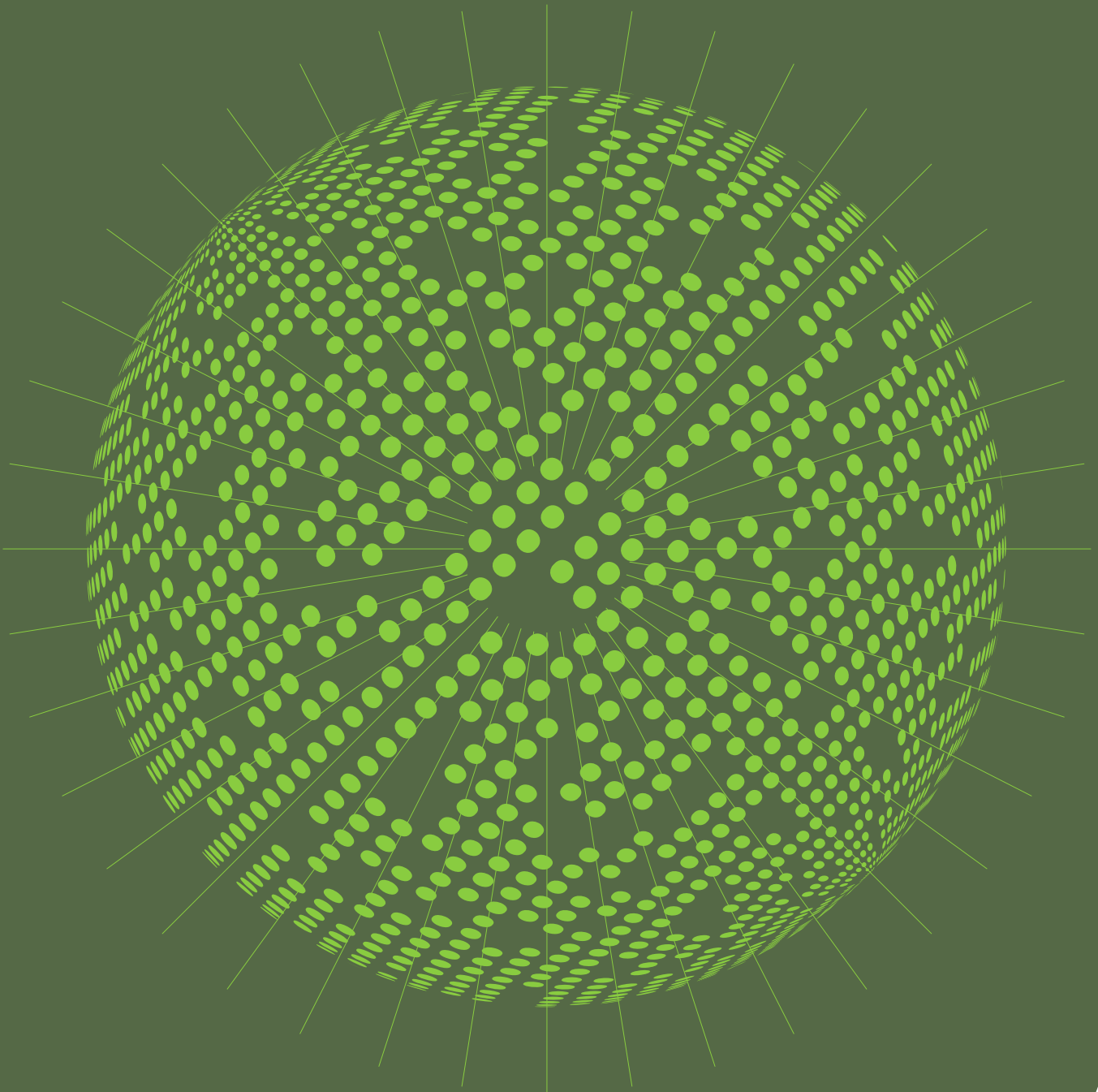


GFiN
GLOBAL FINANCIAL INNOVATION NETWORK



ASIC
Australian Securities &
Investments Commission

RegTech Ecosystem Special Unit Engagement with the RegTech Sector Report Summary 2021



Contents

- 3** Introduction and overview
- 4** Purpose of survey
- 5** Summary of results
- 6** What is RegTech?
- 6** What are Standards?
 - International Standards
 - Guidance and regulatory standards
- 7** Endorsement or certification of regtech businesses or business models
- 7** How would the regulator mandates work with endorsement or non-endorsement or certification of regtech businesses?
 - The basic concern
 - The key apparent reasons
- 8** Standards and regulatory guidance
 - Establishing regulatory guidance or expectations
 - Issuing standards on the use of by regulated firms
- 9** Future RegTech Standards work
- 9** Regulators less engaged with standards development
- 10** The role of mandate and strategy in the issuance of guidance, expectations or Standards
- 10** Standards or guidance provided by the entities
- 11** What are regulators doing in a non-endorsement context?
- 12** Conclusion

Introduction and overview

This report outlines the relationships between regulators and the regtech industry within their jurisdiction (this includes foreign business engagement within a jurisdiction) based on a survey of participants. The participants are a range of members of the Global Financial Innovation Network (GFIN) and in particular the members of the GFIN RegTech Stream. This was prepared as part of the RegTech Workstream, which is a subset of the work of the broader group. This is based on input from the following bodies who are members of the RegTech Special Unit and FCA:

- Australian Securities and Investment Commission
- Bangko Sentral ng Pilipinas
- Consumer Financial Protection Bureau
- Dubai Financial Services Authority
- Financial Supervisory Commission Taiwan
- Federal Reserve Board of Governors
- Financial Conduct Authority, UK
- Financial Industry Regulatory Authority
- Financial Superintendence of Colombia
- Gibraltar Financial Services Commission
- Guernsey Financial Services Commission
- Israel Securities Authority
- The Hong Kong Monetary Authority
- Monetary Authority of Singapore
- National Bank of Ukraine
- Ontario Securities Commission
- U.S. Commodity Futures Trading Commission

Purpose of survey

Members of the RegTech Special Unit were surveyed in March 2022 to gather input on how regulators are approaching setting standards related to regtech and/or the endorsement of RegTech businesses or models.

This report aims to provide a basis for consideration of potential regulatory approaches to regtech by addressing the following questions:

1. What approach do regulators take in providing regulatory guidance or standards on the application of regtech by regulated firms and why (with reference to mandate and strategy)?
2. What approach do regulators take to the endorsement or certification of regtech businesses or models and why (with reference to mandate and strategy)?
3. What other forms of approach do regulators take in the development and use of RegTech by regulated firms and why (by reference to mandate and strategy)?
4. What involvement is there from regulators in development of Industry Standards?

Summary of results

Survey responses were quite broad across all questions. Many respondents found that the questions were not entirely relevant to their jurisdictions. For the purpose of this report, an expansive view of 'standards' has been used to capture the varying interpretations of legislative or other requirements. The key findings from the survey can be summarised into the following points:

1. All survey respondents revealed that they do not use any form of certification or endorsement of RegTech. There are some forms of engagement and licencing where it is mandated by jurisdictional requirements but this does not include a recommendation to use a particular provider. This is due to a range of reasons around mandate and competition considerations.
2. There were a wide range of approaches to encouraging regtech uptake by the regulated population such as events and other engagement models to promote the sector. This may be a reflection of the relatively early development in the area or the increasing focus on improving outcomes through use of automated compliance.
3. There were two categories of responses to the provision of guidance in the form of standards. Some agencies deliver standards in terms of regulatory expectations and a small minority either directly referred to, or are involved in the establishment of international standards such as the ISO standards.

What is RegTech?

The FSB¹ defines regulatory technology ('RegTech') as the application of financial technology ('FinTech') for regulatory, compliance and risk management functions and the fulfilment of reporting requirements by regulated financial institutions. The term 'RegTech' can also be used to refer to firms that offer such applications. The FSB defines² supervisory technology ('SupTech') as any application of FinTech used by regulatory, supervisory and oversight authorities. The underlying technology of RegTech and SupTech may be similar but target different end users. The 'RegTech sector' references the combined types of Regtech and Suptech use more broadly.

This report refers only to regtech entities that are not otherwise licenced for financial services or market operations conduct however a respondent could draw out points on such entities if needed.

What are Standards?

International Standards

'Standards' are defined for this report as 'technical requirements - usually voluntary documents that set out specifications, procedures and guidelines that aim to ensure products, services, and systems are safe, consistent, and reliable'³. This report will refer to regulator engagement more generally before detailing Standards-related work.

Guidance and regulatory standards

'Guidance' is used in this report to refer to regulatory expectations set out and provided to regulated entities. 'Regulatory standards' refer to specific technical guidance or statements of expectation. These come in a range of different forms and are often jurisdictionally specific.

This report covers both Standards and regulatory standards or guidance to reflect the range of responses received. Note the work of The International Organization of Securities Commissions here as an example.

1 13 February 2020 PLEN/2020/12 FSB Survey

2 ibid

3 [What is a Standard | Standards Australia](#)

Endorsement or certification of RegTech businesses or business models

Many regulators are asked for endorsement from the RegTech industry. Industry participants spend significant time and resources to create the appearance that they have a government or regulator endorsed product such as using claims about regulators' views.

Interestingly, industry participants have often raised the argument that regulators provide formal endorsements of businesses. However, this was not apparent in survey responses. Some regulators went as far as to note that their competition mandates would make this a difficult proposition. The only exception was that some regulators may consider business model endorsements or encourage particular sectors in the future.

How would the regulator mandates work with endorsement or non-endorsement or certification of RegTech businesses?

The basic concern

The concern which was also shared by multiple respondents was around endorsing or certifying firms would provide an unfair competitive advantage and that formal endorsements or certifications was not within their remit.

The key apparent reasons

The four key reasons for refraining from endorsing RegTech providers, products, or services including:

- a. RegTech providers do not provide a regulated financial service
- b. RegTechs aren't regulated (for their conduct), regulatory bodies therefore do not provide tacit endorsement through the regulatory authorisation process (competition argument)
- c. The regulators have no authority over RegTech providers, and instead provide guidance to authorised firms using RegTech technology (lack of mandate argument)

An additional factor that can come up is systematic risk of promoting one or a small group of entities not to mention the obligation to determine the best solution for the circumstances of the entity in question is a responsibility for the entity itself.

Fundamentally, the 'standards' set by respondents are those around regulatory expectations with some limited examples of international standards being established. A commonly expressed view was that regulators enforce the law as it stands.

Standards and regulatory guidance

Establishing regulatory guidance or expectations

Many respondents are providing regulatory guidance to firms. This could mean that under their powers (when applicable) they have issued a range of regulatory guidance including work under their respective mandates and related areas such as:

- Cybersecurity
- Payments
- Advice
- Wealth products such as collective investments
- AML
- Crowdfunding and other means of collection of funds from general public
- Regulatory Sandbox /controlled test space
- Advisory services
- Activity in the Securities Market
- High level principals on areas such as AI, cloud computing or QR codes

Issuing standards on the use of regtech by regulated firms

Regulators do not appear to be commonly involved in non-regulator Standards bodies such as those related to the establishment of the International Organization for Standardization⁴ (ISO) standards or Institute of Electrical and Electronics Engineers⁵ (IEEE). This is not surprising as Standards setting processes can take time and the processes used to establish these may not be as efficient as dynamic conduct regulators require. They are often government mandated bodies in their own right. Consequently, these standards relate to 'how' and/or 'when' things are agreed to be done rather than conduct or prudential management.

However, there were analogous examples that appear akin to Standards in the form of guidance. In this case, the word 'standards' effectively referred to standards set such as technical requirements that enabled the regtech sector. It was also noted standards such as ISO standards could be considered in drafting policies or guidance.

There was one exception where one country had a representative involved in the development and the establishment of certain relevant ISO standards. They are part of a focused Committee contributing to the standards around the Ethical Use of Artificial Intelligence⁶. The work of the Committee involves setting the agenda, managing effective standards processes and considering any issues raised, especially those specific to regulators.

4 www.iso.org (accessed 14 September 2022)

5 [IEEE - History of IEEE](#) (accessed 14 September 2022)

6 [1515-An-Artificial-Intelligence-Standards-Roadmap12-02-2020.pdf.aspx](#) accessed 14 September 2022

Future Regtech Standards work

The vast majority of respondents were not involved in the establishment of Standards, especially when viewed as work beyond their direct mandates.

Some entities considered a broader definition of 'Standards' in their response and detailed their work in producing standards and their intentions to provide future guidance when required.

It is anticipated that most regulators will continue to evolve their work over time, and this may include engagement with existing standards or even assistance in the development of standards. Other entities took a different approach that was focused on the development of standards such as ISO standards.

Regulators limited engaged with Standards development

Most regulators indicated that they are not looking to produce Standards directly (for clarity, that is standards developed by industry), instead either relying on these being produced or remaining more focused developing regulatory guidance and similar support. The basis of this appears to be the mandates that set their respective scopes.

This is not to suggest that regulators are not being proactive in producing guidance and supporting those areas within their regulated mandate. Simply that development of 'Standards' around agreed conformity systems for areas that are beyond the scope of their work is not yet something that regulators are engaging with. However, interest and relevance remain high due to the close proximity to work within current remit.

Interestingly, a few responses mentioned that the aspirational goal of Standards was to be cited or to form the basis of new regulation or law.

The role of mandate and strategy in the issuance of guidance, expectations or Standards

Overwhelmingly, the responses indicated that the mandates of the regulatory bodies do not include regulations for 'regtech' providers, with caveats usually around corporations, technology use (as part of other compliance systems) or under forms of relief power. The latter is often due to the risks that the regtechs can present to the community.

However, of interest were the exceptions, namely the rules that apply to a company or in relation to any products or services (such as those incidental to the production or sale of products within the scope of a given jurisdiction).

This appears to reflect the separation between Supervisory Guidelines and RegTech Adoption guidance; where the regulated population may be assigned obligations as opposed to being supplied with recommended solution providers.

Standards or guidance provided by the entities

Standards can be influenced by several factors such as input from relevant stakeholders, reporting requirements or licensing obligations. The latter may have greater impact on the development however indirectly for industry standards. However from a regulatory perspective the focus remains on ensuring good consumer outcomes or otherwise meeting the regulator's mandate. Thus, Standards can be viewed as a valuable enabler but no more than a means to an end.

It was found that some regulatory bodies produce guidelines for financial institutions that outline a set of principles to adhere to when using Enabling Technologies in financial services while others maintained a strong technology-agnostic approach.

What are regulators doing in a non-endorsement context?

This survey question garnered the most detailed responses. The extensive list of undertakings by the entities reveal significant efforts to support RegTech and related communities (such as FinTech or subsets like InsurTech).

The initiatives undertaken by the entities across all responses include:

- Meeting with firms offering services via Innovation Support Functions, including to demonstrate or explain respective work, regimes, and expectations
- Sandbox or testing environments or relief arrangements as an opportunity for RegTechs to collaborate and test novel technological approaches
- Setting up regulatory roadmaps
- Annual or periodic events
- Knowledge hubs or trends reporting (GFIN could be an example of this)
- Assistance with collecting information within their jurisdiction to enable others to report, such as industry bodies
- Community events such as, showcases, or hackathon like events (with or without funding)
- Undertaking studies in partnership with universities
- University presentations/seminars
- Conference speeches
- RegTech Forum Events
- Working with local firms to establish support systems for RegTech
- Recognition scheme for cybersecurity assessment providers such as vulnerability assessment and penetration testing
- Joint Statement on Innovative Efforts
- Undertaking observer status work

These initiatives reflect much of what was observed from last year's survey results. The notable difference is the more expansive nature of engagements and increased number of comprehensive engagement methods.

Conclusion

The survey found that no formal certification or endorsement models for RegTech were used by participating regulators due to limited mandates and considerations around fair competition. However, it did find that the entities used a range of engagement methods to encourage RegTech uptake by the regulated population through events and other initiatives. There were a limited number of entities who are involved in work related to development of technical standards (such as the ISO standards). The survey results provided a useful overview of global approaches to the regulatory endorsement of RegTech. It also revealed a common interest among regulators in continuing to promote the RegTech sector, with a few regulators indicating that they may even consider endorsing business models in the future.

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