October 5, 2018

Mr. Andrew Bailey
Chief Executive
Financial Conduct Authority
25 North Colonnade
Canary Wharf
London E14 5HS
United Kingdom

And

Members of the Global Financial Innovation Network ("GFIN")

Dear Mr. Bailey and colleagues,

Re: GFIN Consultation

The Institute of International Finance ("IIF") is thankful for the consultation initiative on the proposed Global Financial Innovation Network, and we are pleased to submit our comments on this occasion on behalf of the IIF's member institutions worldwide. We are delighted to contribute to a constructive policy dialogue on the difficult role of regulators and supervisors in providing a level playing field for all participants and fostering an innovative, secure and competitive financial market.

We would like to highlight foremost that the financial industry welcomes the initiative to create a network such as GFIN, while identifying some points of clarification and further suggestions. We believe that this initiative, together with those being explored in other jurisdictions, is very positive in promoting innovation through collaboration among authorities and financial institutions. If implemented and brought to fruition, the GFIN can be used as a tool to leverage the capabilities of technology in the financial sector, while at the same time keeping in place the guardrails that ensure financial stability, protection of customers and the integrity of the financial system.

Our remarks are structured firstly with some comments related to key issues and major themes that come through in the consultation, with the second part addressing some of the specific sections and questions that were posed in the consultative document.

Part 1: Key Issues

1.1 Definition of Innovative Companies

Regarding the participation of private financial firms in the GFIN, the wording of the document points to opening up the access to cross-border trials, cooperation with regulators and

participation in the overall exchange of experiences through the network for so-called "innovative financial services firms and/or companies."

We interpret this term to be inclusive of:

i. incumbent firms (such as banks, insurance companies, asset management companies);
ii. start-up entities; and
iii. instances of partnership between incumbent financial institutions and firms that specialize in technology solutions.

We encourage adding an explicit clarification to this effect. If such a clarification was made at the beginning of the document, this rather simple inclusion would help to send the message that regulators are technology-neutral and firm-neutral in their outlook.

1.2. Composition of Regulators

The IIF welcomes the diversity of regulators who support this proposal and have already declared their participation in the GFIN. However, while these participant agencies do represent some of the major financial markets and innovation hubs, we would encourage further expansion into other jurisdictions and other types of regulatory agencies.

We feel the GFIN proposals will be more considerably more effective in supporting safe and competitive innovation with the inclusion of Japan and Switzerland, as well as an expanded participation from other leading regulatory agencies in the EU (both at the level of the European Banking Authority and agencies in the member states), US and Canada.

The participation of more prudential banking and insurance regulators would also be welcome, and would help to make the GFIN a more representative network of the various players in the financial industry, and contribute to greater competitive parity. The industry is willing to help promote this, where we can play a role in supporting such expansion.

For this reason, we similarly support greater alignment with international standard-setters (referred in Question 6 of the consultation document, and in Part 2.2 of our comments), and we also encourage further engagement with the European Commission, noting their proposal for EU-wide innovation facilitators and FinTech Labs as part of their FinTech Action Plan.

1.3. Inclusion of RegTech in the Scope of the Network

The IIF welcomes the inclusion of initiatives destined to leverage technology to fulfill legal and regulatory compliance requirements ("RegTech") into the scope of the GFIN. As the industry moves steadily to a broader application of new technological developments to assist it in these matters and strengthen its safeguards in this respect, the members of the network should expect a significant portion of trials to be conducted in this space. This will be expanded further with the evolution of RegTech into a broader approach to "RiskTech," i.e. where companies will increasingly use technological solutions not merely for those compliance requirements, but reaching beyond that to improve the quality and timeliness of their relevant (credit-/market-/financial crime-) risk functions.

In this context, we would like to highlight the crucial importance of a coordinated approach to joint policy work and harmonized supervisory practice in this space. Regulators and financial institutions share the same goal in this context and can greatly benefit from a collaborative approach as well. Accordingly, we suggest an edit to the second sentence of Paragraph 16, second bullet point (Page 6), to read "This *should* also include regulators collaborating on RegTech solutions," as one example where collaboration would be welcome. Paragraph 35 on Page 10 is very clear on this topic, which is welcome.

To ensure that such solutions and future use cases are not unintentionally excluded from the scope, it would be highly welcome if 'beyond banking' approaches were covered on a more general basis. This could cover technologies such as voice recording, that could later be deployed for various purposes from AI-based customer advice to regulatory communications surveillance.

Part 2: Section Specific Comments

2.1 Section 3 'Mission Statement'

We note that Question 3 (Page 7) asks for examples of aspects and areas of regulation that pose the greatest challenge in innovating. Firstly, addressing this specifically on a cross-border basis, we highlight the following issues:

- The absence of global standardization in handling client/customer data, including ownership, usage and storage, especially for clients in multi-jurisdictional setups. Multinational/universal banks have a global client base but are subject to varying regulatory guidelines or stipulations for managing and harnessing the data.
- Varying regulatory requirements in the implementation of Cloud computing, which increasing in a critical enabler for innovative initiatives, both for enhancing risk management and meeting customer fulfilment expectations.[1]
- The increasing prevalence of data localization requirements (which serve to compound the above-mentioned issues).

These issues serve to stifle the cost effectiveness and pace of innovation, and limit the portability of technology innovations across jurisdictions.

Where various national/regional regulatory bodies have provided their own versions of technology risk management principles and related technical requirements, including for the vetting of new but untested solutions, potential global solutions cannot be adopted in scalable format and in a short amount of time. To the extent that the GFIN can help to overcome this, it will be welcome progress.

We also stress a more common regulatory barrier (often occurring even within a single jurisdiction), where requirements when partnering with a third-partner are based on legacy requirements that were designed for more traditional types of vendors, rather than for firms

[1] The IIF will imminently be publishing the 2nd paper in our 3-part series on Cloud, elaborating further on the barriers to implementation, including international inconsistencies.

partnering on digital solutions. As enhanced opportunities for cross-border innovation are promoted, we urge the GFIN to remain mindful of this issue also.

2.2. Section 4.A. 'A network of Regulators'

Referring to Question 5 (Page 9), developing a best practice for regulators should indeed be a priority, to ensure a harmonized approach and resist regulatory fragmentation when assessing financial innovation. Due to the highly competitive nature of financial innovation, differing approaches to similar issues by regulators can have severe effects on a firm's ability to implement these solutions, as outlined above in Part 2.1. Varying approaches lead to increased costs to satisfy the respective expectations and can render their implementation ineffective.

With reference to RegTech, solutions that are destined to improve compliance with rules that are based on overarching, common principles should be assessed according to a similarly common approach.

Similarly, we stress our full support for involving global standard setting bodies as part of the GFIN (Question 6, Page 9), who should be aware of current developments in the areas they are cover. The IIF continues to endorse the role of international standard-setters in delivering substantive macroeconomic benefits by promoting consistency, and this only becomes more critical in the digital era.[2]

We would also highlight that such best practices should also address the protection of intellectual property, where such could become known to a number of actors in another jurisdiction through this initiative, and should be handled with the appropriate care. We expand on this further in Part 2.4.3 of our comments.

We also emphasize the crucial role of transparency. As GFIN participants are able to select their participating in self-organizing sub-groups (refer Paragraph 27), transparency will be central to building trust and credibility.

Lastly, we urge the participating regulators to expand their focus beyond guidelines and policy facilitation, and towards proactively working with technology industry groups on setting standards.

2.3. Section 4.B. 'Joint policy work and regulatory trials'

As stated above, the IIF supports all forms of coordinated and harmonized approaches, of which the envisaged joint policy work is a great example.

With respect to Question 7 (Page 11), the financial industry would greatly benefit from such joint policy work, particularly if the representativeness of participating regulators can be expanded (refer Part 1.2 of our comments). More specifically, any initiative clarifying the specific

[2] See previous IIF research on the contributions of international standard-setters, at www.iif.com/publication/regulatory-report/international-regulatory-standards-vital-economic-growth

expectations of regulators on high level requirements is welcome, even more so if these high-level requirements are shared with other jurisdictions.

Examples of this can be found in regulations such as Open Banking frameworks and in the AML/Financial Crime space. These areas are increasingly impacted by the emergence of new technologies and are often based on similar (or even common) sets of rules. Ensuring that regulators who oversee their implementation act in a harmonized manner is paramount to reaching the goals of these frameworks, such as an increased competition in the financial sector or a stronger defense against illicit behavior. At the same time, it should be kept in mind that regulatory fragmentation occurs often in the details, where guidance and best practices by regulators differ, even if they are based on the same or similar high-level requirements.

2.4. Section 4.C. 'Cross-Border Firm Trials'

The IIF welcomes the concept described in the consultation document, outlining the creation of cross-border trials of new technologies, services and projects with the cooperation of the local regulators and in a secure environment. It is especially welcome that these are open to any form of business model and should include the RegTech space as well (see above, in Part 1.3 of our comments). We are optimistic that this concept could trigger a great deal of interest by the financial sector and lead to the development of sustainable business models in the future.

In reference to Question 8, use cases that might benefit from cross-border trials (among others) include direct account opening for clients resident in non-booking center markets, advisory solutions for cross-border clients, and international remittances.

With respect to Question 9 (Page 13), we believe that the approach appears sensible, but the following points should be taken into consideration.

2.4.1. Definition of fundamental rules

Paragraph 49 of the consultation document states that firms applying to conduct a cross-border trial must meet prerequisites, determined by the regulators involved.

The IIF understands the rationale of this statement, and that the GFIN is reluctant to give up flexibility by setting up rigid structures that could form a barrier to a future trial. However, the IIF calls upon the members of the GFIN to clearly determine a set of fundamental rules that must be upheld in any case and that form the basis of any trial. To promote sustainable innovation for the benefit of the customers and the financial market, certain frameworks should be kept in place. Regulatory fragmentation would otherwise be a risk, ultimately leading to less uptake on the GFIN possibilities and potentially damaging customers' trust.

From our perspective, the GFIN should determine which rules should be upheld regardless of the type of innovation and choose a coordinated approach in these matters. These rules would of course need to be followed by all participants in any type of cross-border trial, regardless of their size and their business model, for the benefit of the customer and the market.

These could include regulations on privacy, the prevention of financial crime, transparency and consumer protection. We would suggest for the members of the GFIN to coordinate a common approach to this issue and are happy to provide some further input if requested.

2.4.2 Recognition of regulatory status

Another issue financial institutions encounter in cross-border contexts is if the host regulator recognizes the adequacy of the firm's "home legal framework" to be allowed to conduct business in the host country. This issue is somewhat alleviated in areas such as the EU and the jurisdictions which are recognized as equivalent, but barriers still remain.

The GFIN should therefore outline what access is possible for foreign firms and consider either amending existing barriers or reducing them altogether. Similarly, if reducing barriers of this type to allow trials to go forward are not in the scope of the GFIN initiative, it should be made clear to all participants which firm can access which market due to existing recognition regimes.

The IIF recognizes that solving all issues revolving around mutual recognition in the financial sector extends beyond the scope of the GFIN. However, we would encourage the involved regulators to cooperate as closely as possible in determining where they oversee and enforce similar rules, and open their market to trial by financial institutions subject to these rules. Without any consideration of these matters, it is unrealistic that the cross-border trials can be used to access a new market as effectively as the consultation envisages.

2.4.3. Clarity on trial process

While the document presents an overview of the intended concept, the IIF is of the opinion that members of the GFIN should agree and communicate a clear guideline on the process to be followed to gain access to such a trial. This would help financial institutions looking to make use of this opportunity to prepare in advance by factoring the trial phase into their own internal planning process (i.e. when setting up project groups for a new initiative in advance).

Specifically, an outline of regulators' expectations for a product or initiative is needed, including if these differ based on the type of issue an institution is working on. For example, expectations might differ when submitting a new product intended for consumers than for corporate clients or a RegTech-related solution. If a financial institution has this clarity from the beginning, it can plan adequately, leading to a more efficient trial process and a shorter "pre-trial" phase where it is decided if the trial can be held. This would also address part of the concern raised in Paragraph 51 of the consultation document. Similarly, if financial institutions had clarity on the contents of the trial plans to be submitted as described in Paragraph 55, the access phase would be more efficient.

It would also be beneficial to agree on a common access and application procedure to the GFIN cross-border trials. We understand that an application would be filed through a firm's local regulator (Paragraph 54), who would assess if a firm is capable of conducting a cross-border trial (Paragraph 51). We suggest determining a set of criteria a firm must fulfill to be deemed capable to do so. However, these criteria should be built in a way that does not preclude smaller institutions in taking part, even if they do not have the global outreach and presence of some of the biggest banking and insurance groups in the market.

We would also point out that setting up a process to determine priorities should be in place as a backup plan in case trial requests exceed a regulator's capacities in terms of headcount or time. This should occur before the gradual expansion of the number of trials described in Paragraph 52 takes place.

The need for clarity also applies regarding the expected maturity of a solution before going to trial. Firms should know if they are expected to have already conducted internal (mock) trial runs or made use of a national sandbox environment if there is one. Furthermore, it should be clear if firms are expected to test only initiatives that are ready to go to market if the trial is successful and therefore ready to be integrated into the institution's product and IT portfolio. It would also be conceivable to assess the outcome of a trial and decide on the viability or necessary amendments before taking these steps to finalize such an integration. It is not entirely clear at this stage which of these two alternatives is the right one.

With regards to the two options set out in Paragraph 53 (Page 12) for cohort and rolling approaches, we believe it is important that access via a rolling approach is made available, as this is more conducive to the interests of legal certainty and the development of safe products within a reasonable timeframe. As is well described in this Paragraph, it is important that time-to-market is reduced to the minimum, and a rolling approach is an important tool to achieve this.

Lastly, we wish to emphasis the importance of transparency. To ensure that the financial system as a whole benefits from the sandbox/trial approach, the regulatory results of a trial should be made public, to the extent that they could form a precedent for others. We suggest that the local regulators produce a report of the (high level) type of solution that was trialed, if it has been successful and if there are actions that regulators deem necessary for it to be rolled out into production. This would keep firms from repeating mistakes or not meeting expectations because they lack insight into previous trials, and build a best practice from the beginning. Obviously, any confidential information related to technology, market or business policy must be kept confidential and should not be shared, and we make a distinction here between the regulatory and commercial conclusions drawn from a trial.

2.4.4. Access to trials

As another general note on cross-border trials, we would urge the members of the GFIN to ensure that firms whose home jurisdiction does not allow the concept of "sandboxes" are able to take part in this initiative and the trials.

The criteria upon which access to a trial is granted over another (if necessary) should be based on the type of solution trialed, rather than on the specific innovator proposing it. Concurrently, that innovator should be required to demonstrate a rationale as to why this particular solution should be trialed internationally, and what the financial system, customer and/or regulator can gain from such a cross-border exposure.

The consultation contains the statement that firms conducting the trial would be expected to meet all regulatory requirements applicable in the respective jurisdictions (Paragraph 48). It should be kept in mind that this could preclude some firms in taking part, due to the issue mentioned above. It would be helpful to clarify how a situation would be handled in which these very requirements prohibit (or at do not allow) to conduct a trial of a solution at all.

In this context, Regulators allowing access to their market for the purpose of a cross-border trial should reassess the requirements for cooperation with third parties by financial institutions. We encourage regulators to help incumbent financial institutions to cooperate with third parties for the purpose of innovating financial services. Due to the high level of fragmentation in this context between various jurisdictions, determining all of these rules is unrealistic.

However, one approach would be to determine that third party cooperation rules should apply based on the market in which customers might be affected by a new solution (i.e. not exporting rules to a different jurisdiction).

Lastly, some guardrails should be in place to ensure that "vanity projects" (solely to gain publicity) are not given priority over others.

2.4.5. Reduction of hurdles to market access

In addition to clarifying the access procedures before the trials, the steps following a trial should also be considered and allow a firm to go to market quickly if the trial is successful. Some of our member institutions that are active in numerous jurisdictions have experienced delays when trying to go to market that were unrelated to complying with prudential regulations in the past.

We suggest including a consideration by members of the GFIN to ensure that a successful trial is coupled with the necessary authorizations for a firm to go to market in a jurisdiction, which would also include working towards the necessary visas for staff, licenses to operate etc.

We understand that these matters are not the primary responsibility of the regulators involved in the GFIN. However, a cross-border trial would be an opportunity to prepare the necessary steps, which are part of any cross-border operation. From our perspective, innovative financial solutions that have been tested successfully and deemed viable for customers should not be held up by hurdles on the organizational side. Local regulators overseeing a trial should at least consider the options they have to support a financial institution in its relationship with other public authorities.

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In summary, the IIF welcomes the GFIN initiative, and we hope that it can be both expanded and fine-tuned. We believe that industry has an important role to play in supporting both that expansion and the necessary refinements, and we are anxious to contribute and play that role.

Throughout each of the IIF's recent publications on machine learning, cloud and data sharing, one recurring theme has been the shared journey that industry and regulators are on together, in enabling valuable innovation that benefits consumers and the wider economy, in a safe environment. We believe that the intent of the GFIN reflects this same ethos.

The IIF looks forward to working with you and your colleagues on this important initiative, and are happy to engage in further subsequent discussions and consultations. Should you have any questions, please contact either myself (bcarr@iif.com) or my colleague Adrien Delle-Case (adellecase@iif.com).

Best regards,

Brad Carr
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