Dear Mr Worthington,

Standard Chartered’s response to the Financial Conduct Authority’s (FCA) consultation paper on the Global Financial Innovation Network (GFIN)

Standard Chartered welcomes the proposed establishment of the GFIN and the opportunity to provide comments.

Financial technology (FinTech) innovation can create new opportunities for financial institutions and their clients both domestically and globally. The GFIN will play an important role in increasing the coordination and consistency of supervisory and regulatory frameworks on a cross-border basis. The harmonisation of regulatory approaches, standards and practices related to innovation across jurisdictions is necessary to maximise the benefits that innovation offers, while also ensuring that new risks arising from innovation are managed effectively.

Regulatory divergence is a key challenge faced by firms when innovating. Conflicting and/or competing requirements across multiple jurisdictions can complicate a firm’s ability to create and provide innovative products and services on a cross-border basis. The GFIN will be uniquely positioned to tackle these difficulties by fostering greater regulatory convergence at the international level through knowledge and experience sharing, and collaborative testing across jurisdictions.

Further, the GFIN will set an important precedent with the creation of cross-border trials. Standard Chartered operates in over 60 countries and so this represents a practical platform to potentially test and launch new cross-border products and services, allowing us to serve our clients better and meet their evolving needs and expectations.

With a view to support the success of the GFIN, we recommend that the FCA considers the following areas:

1. GFIN’s engagement with stakeholders

We support increased collaboration among regulators globally, particularly given the cross-border nature of innovation, and welcome the GFIN’s objective to build a common understanding across the regulatory community. To facilitate effective policymaking and promote regulatory certainty, we recommend further guidance is provided on the relationship between the GFIN and the international standard setting bodies (ISSBs), including on how the GFIN will support such bodies and what aspects of the ISSBs’ work it plans to focus on. We provide more details on this in our answer to question 2.

Moreover, while we understand that a key role of the GFIN is to promote better information sharing among member regulators, it would be beneficial for the GFIN to engage with a broad range of stakeholders,
including non-financial authorities, incumbents and start-ups to ensure as comprehensive a view as possible on the GFIN’s subject matter. Through participation in consultations and/or regular dialogues with the industry, market participants would be able to assist the GFIN in assessing opportunities and challenges arising from innovation.

2. Priorities of the GFIN
We recognise the benefits that developing best practice and ensuring alignment in regulators’ approach to innovation will bring. To ensure the effectiveness of best practice, it will be important to secure the support of a wide range of regulatory bodies, as well as other market stakeholders. In addressing areas of divergence in regulatory or supervisory approaches, best practice should remain principles-based and efforts to gold-plate at the national level should be avoided. This will facilitate practical implementation on a cross-border basis while ensuring that effective minimum standards are complied with. In this regard, it would be useful if more clarity could be provided on the approach that the GFIN will take in tackling differences in regulatory regimes, such as through the development of common principles.

In addition to its proposed priorities, we recommend that the GFIN addresses cross-border issues that arise from the application of new technologies. These may include the ability to offshore services and cross-border transfer of data. We also recommend that the GFIN considers a framework for the mutual recognition of regulators’ approvals, which would streamline the approval process for cross-border innovation projects.

3. Cross-border trials
We welcome the cross-border trials initiative established under the GFIN, which will be vital in allowing firms to test innovative solutions in multiple jurisdictions. We recommend, however, that further guidance is given on how the GFIN will manage the application process for such cross-border trials. To facilitate this, we recommend the GFIN agrees common criteria by which to assess an application. We also encourage the GFIN consider a cross-border licence exemption approach, where eligible firms are permitted to test new services under an exemption from financial services or credit licence permissions for a specified period.

Further, while we understand that the GFIN will focus on emerging technologies, it is important that existing and established technologies also benefit from focus and support by the GFIN, including testing via cross-border trials. This will be particularly valuable for those technologies that are enablers of further innovation, such as cloud technology and cross-border data sharing. We provide more details on this in our answer to question 9.

The accompanying annex to this letter details our comments in response to the questions outlined in the consultation paper. We hope these comments are helpful and we would be pleased to discuss our views with you in greater detail.

Yours sincerely,

Ian Sayers
Global Head, Group Regulatory Liaison and Acting Global Head, Regulatory Reform
Compliance
ANNEX – Responses to Consultation Paper questions

**Q1: Do you agree with the proposed Mission Statement for the GFIN?**

We broadly agree with the proposed Mission Statement.

**Q2: Do you agree with the three main proposed functions for the GFIN?**

Overall, we agree with the three main proposed functions for the GFIN, which are designed to support the objectives of the mission statement.

In addition to those proposed, we recommend that the GFIN considers creating an additional function to act as an ‘industry engagement platform’. Regular engagement with the industry will aid effective policy work undertaken by the GFIN, ensuring that this work is based on the experience of market participants. This additional function would also be valuable for firms in their attempts to navigate different jurisdictions that they do not currently have access to, in order to launch new products or services following testing through cross-border trials. At the least, we encourage the GFIN to interact with the industry through regular consultations and dialogues, as mentioned in our covering letter.

We understand that the proposed functions, especially the network of regulators and joint policy work functions, seek to complement the work of ISSBs on innovation. We recommend that further guidance is provided on how the GFIN will support the work of the ISSBs, including on what aspects of their work the GFIN intends to contribute. This should be undertaken to promote certainty and consistency in the regulatory framework, and to avoid competing or duplicative work.

In terms of its support for the work of the ISSBs, we believe that the GFIN will be uniquely placed to provide recommendations on the cross-border consistency of applicable regulatory frameworks, including the detection of gaps, inconsistencies or conflicts in applicable requirements. In undertaking this work, it would be useful for the GFIN to leverage the information gathered through the cross-border trials to inform the development of new standards at the international level. This approach would also help address the concern raised above, on potential duplication with the work conducted by the ISSBs.

Finally, to fully recognise the benefits that the GFIN can bring, some potential implementation issues may need to be addressed. For example, further clarification is required around the scope of information shared between national regulators and the GFIN, and under which applicable regulatory regime this will take place. Further guidance on appropriate measures that will be put in place to protect firms’ commercial interests and ensure compliance with data privacy requirements as their information is shared among the GFIN network would also be valuable.

**Q3: What aspects/areas of regulation pose the biggest challenge when it comes to innovating?**

The following regulatory areas have the potential to impede innovation. We recommend that the GFIN evaluates and addresses these holistically, following a risk-based approach given the evolving nature of new and emerging technologies, and finds principles-based solutions to ensure cross-border convergence.

**Regulatory divergence:** Overall, the biggest challenge firms face when innovating is divergence in regulatory standards across different jurisdictions, in particular due to the cross-border nature of FinTech-based solutions. Despite the emergence of some global regulatory developments, much of the detailed work to enhance or develop regulatory approaches is being done at the national level. The development of these national regimes is not always consistent and coordinated, including on cross-border application. Examples include different regulatory approaches towards: the definition of outsourcing and materiality; regulatory approvals; data privacy requirements; anti-money laundering (AML) and know your customer (KYC) requirements; and the use of cloud-based platforms.
Divergence leads to uncertainty on the impact of new regulatory requirements, where the activity is considered to be taking place and which jurisdiction’s rules apply. Greater regulatory convergence at the international level and the development of consistent international standards would be an important enabler to innovation within the financial sector. Accordingly, we recommend that the GFIN prioritises areas of divergence. In addition, we note some divergence between regulators within the same jurisdiction. We believe that the GFIN would also be well placed to lead on bringing alignment in intra-country regulation. Further consultation with the industry would be helpful to identify and prioritise these areas.

**Outdated regulatory framework:** Regulations published before the emergence of FinTech may also represent a challenge for firms when innovating. For example, the European Commission mentions in its FinTech action plan\(^1\) that requirements or preferences for paper based disclosures, or the need for a physical presence, may not fit with evolving technologies. Another example would be cloud technology, where requirements initially developed for internally-hosted systems may be out of sync with the non-traditional nature of cloud platforms.

**Data privacy, protection and sharing:** The regulatory regime for data continues to be an area of interest and focus for regulators across jurisdictions, which necessarily has cross-border impacts, such as those seen following the implementation of the EU General Data Protection Regulation\(^2\). As mentioned in our answer to question 2, ensuring data privacy will be important to protect firms’ commercial interests and its efforts to ensure compliance with such requirements. Further, we note an increasing regulatory trend towards the onshoring of data storage and processing, which effectively prohibits its transfer to central processing centres held overseas. This undermines firms’ ability to innovate and process data centrally.

We recommend that impediments to data sharing, largely triggered by data protection concerns, should be adequately considered by the GFIN, particularly during cross-border firm trials. In this regard, we encourage the GFIN to draw on the recently finalised European Regulation on free-flow of non-personal data, which removes barriers to the sharing of non-personal data across EU member states.

**Consumer protection / financial stability risks:** Regulators in many countries are aiming to embrace the opportunities arising from new technologies, while ensuring adequate protection for customers and avoiding new financial stability risks.

We believe that the balancing of such priorities, i.e. between promoting innovation and mitigating potential harm to customers and/or the financial system, should be considered at the international level. The GFIN will play an important role in this regard. Additionally, the use of cross-border trials would help by allowing a collaborative approach in a safe environment.

**Outsourcing:** In many cases, innovation brings new third-party relationships and the level of outsourcing from the financial services industry to both the regulated and non-regulated sectors is increasing. Disproportionate rules around outsourcing arrangements, however, inhibits the industry’s ability to partner with third parties to meet client’s evolving needs and expectations.

For example, the European Banking Authority’s recent proposal\(^3\) on revised outsourcing guidelines and the mandatory right to audit would mean that the ability for a firm to partner with a small third-party vendor on the development of an innovative product or service may be impeded if that third-party provider could not secure the contractual right to audit a large cloud service provider, in the case that it was hosting in the cloud.

We believe that it would be valuable for the GFIN to further consider how to promote consistency in standards on outsourcing, promoting a risk-based framework that promotes and facilitates innovation.

\(^1\)https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0109
\(^2\)https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:3A32016R0079
**AML/KYC regulation:** As FinTech innovation enables firms to offer new products and services on a cross-border basis, compliance with applicable AML and KYC regulation for remote onboarding is a key challenge faced by firms. This is further complicated by data privacy and onshoring requirements, as mentioned above. It would be useful to establish clear and harmonised rules for identifying consumers and businesses online, fully considering regulatory regimes for both AML/KYC and data protection/privacy.

In addition, the GFIN may benefit from exploring ‘user experience’ or ‘customer experience’ principles and tools to understand the ‘customer journey’ of firms seeking regulatory approval for innovative and technology-based solutions. In this respect, firms can help regulators better understand this customer journey and this approach will help ensure a productive dialogue between the industry and regulators, as highlighted in our answer to question 2.

**Q4: Do you see any reasons why this initiative may be counterproductive to the outcomes it is seeking to achieve?**

As mentioned in our answer to question 3, the maturity and experience of national or regional financial regulators vary with respect to new technologies, as with the pace of the adoption or development of these technologies.

We believe that the GFIN should support flexibility with a principles-based approach, avoiding being overly prescriptive so as not to create a ‘bottleneck’ for locally focused activities to take place. Moreover, the cross-border trials in particular may be less efficient without the broad support from regulators across jurisdictions as intended and if only a limited number of regulators decided to take part.

In addition, public cloud and open application programming interfaces (APIs) will represent critical infrastructure for the GFIN’s initiative. Such technologies, subject to rigorous security assessment, should be considered positively from a regulatory standpoint to ensure the successful uptake of cross-border trials.

**Q5: Do you believe the issue of developing a best practice for regulators when assessing financial innovation should be a priority for the network? If not, what other priorities should the network first address?**

We recognise the potential benefits and value in developing best practice for regulators, which will include gaining insights into approaches taken across jurisdictions through networking, and information and experience sharing among the regulatory bodies.

To get the maximum value from this best practice and ensure regulatory certainty for firms, we recommend that the national authorities publish a gap analysis of their own regulatory standards against the GFIN’s best practice. This should include a roadmap for change so that firms can plan their own transformation in step with regulatory and/or supervisory change. Moreover, such best practice should avoid becoming the highest common denominator, which would risk inhibiting innovation on a cross-border basis. The best practice should remain principles-based and linked to existing standards formed by the ISSBPs.

Other possible priorities for the GFIN include:

- Reviewing the consistency of existing policies, supervisory approaches and authority across jurisdictions to identify areas for potential harmonisation
- Ensuring consistency in future regulatory requirements
- Recognising other regulators’ approvals to streamline firms’ cross-border applications
- Developing a skillset for regulators to ensure that their knowledge, skills and tools remain relevant and effective in supervising the risks of new technologies and innovative business models, as highlighted in Basel Committee on Banking Supervision report on ‘Sound Practices: Implications of fintech developments for banks and bank supervisors.‘

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4 [https://www.bis.org/bcbs/publ/d431.pdf](https://www.bis.org/bcbs/publ/d431.pdf)
Q6: Do you agree with the approach to involve global standard setting bodies as part of the GFIN? How else would you like to see these organisations involved?

We agree with the increased cooperation with ISSBs by encouraging them to participate in relevant sub-groups and cross-border trials. Working closely with such bodies would be beneficial for knowledge exchange, information sharing and building a common understanding of current developments. It will also aid the policymaking that takes place at the ISSBs, particularly when focusing on cross-border implications that are often difficult to detect based on contributions or research at the national level.

Further, the increased flow of information between the GFIN and the ISSBs will be helpful. However, to promote regulatory certainty, we recommend that further guidance is provided that clarifies the role of the GFIN compared to the ISSBs, the status of best practice in relation to international standards, and how to address competing standards to avoid potential duplication or confusion.

In addition, we encourage the GFIN to direct some of its publications to the attention of the ISSBs, providing recommendations on possible regulatory gaps and harmful inconsistencies that should be addressed, which can be considered when the ISSBs form new or update existing standards. The sub-groups that the GFIN intends to establish would be well positioned to accomplish this work. We also believe that the GFIN should play a key role in promoting innovation to the ISSBs.

Q7: What kind of outcomes from the policy work and regulatory trials would your organisation benefit from?

As previously highlighted, we are particularly interested in the work of the GFIN to resolve regulatory inconsistencies or incompatibilities identified both through industry consultation and cross-border trials, as well as developing consistent principles-based standards to apply on a cross-border basis.

The GFIN’s policy work should help the industry create their internal roadmaps for regulatory policies, frameworks and solutions. From the regulators’ perspective, the policy work should help facilitate harmonisation in existing and future requirements, including the retirement of outdated regulations that are no longer fit for purpose and/or are counterproductive to the improvement of overall customer experience in light of new and emerging technologies. In this regard, it will also be important for any policy work to remain technology-neutral and activity-specific.

Q8: Would the cross-border trials be of interest to your organisation? If so, could you provide any potential example use cases?

We would be interested in the cross-border trials. The ability to test innovative ideas across multiple jurisdictions will be a key enabler for firms that operate globally.

Potential use cases could include:
- Cross-border digital identity to aggregate account information across countries
- Cross-border payment infrastructure to manage more open and standardised cross-border liquidity pools
- Approvals for outsourcing to cloud service providers and/or the use of cloud platforms
- AML/onboarding solutions that are suitable for multiple jurisdictions
- Outsourcing approvals that are suitable for multiple jurisdictions
- Recognition process of other regulators’ approvals
- Regulatory technology
Q9: Do you agree with the proposed approach to managing the application process for cross-border trials?

In general, we agree with the proposed approach towards managing the application process for cross-border trials. We believe, however, that it would be useful for the GFIN to provide further guidance and transparency on the process, in particular around how the selection would be determined. We also note that restricting potential uptake may limit the success of the cross-border trials function.

Further, it might take longer to get approval if firms must follow the process as set out in para 55 and 56. While a joint process has the advantage of ensuring clarity and consistency across all regulators, the timing would be highly dependent on all of the regulators agreeing on the applicable standard. For example, it is not clear what would happen if one regulator required a higher standard compared to other regulators. In such a situation, a firm should be able to launch its service in certain jurisdictions first, allowing more time to meet the higher requirement in the respective jurisdiction. Under a combined approach the release into any single market might be unnecessarily delayed or risked.

To address these difficulties, we recommend that the GFIN considers adopting an approach similar to the Australian Securities and Investments Commission’s exemption regime, rather than requiring case-by-case approval for cross-border trials. If all the relevant regulators are required to approve admission for a cross-border trial collectively, it may create a barrier for firms who wish to participate in the initiative.

Q10: [For regulators] Do you anticipate any challenges with the proposed approach to managing the application process, or conducting cross-border trials?

Not applicable.