

European Forum for Innovation Facilitators (EFIF)

Summary of the June 2021 event¹

Opening remarks

Tim Shakesby, Chair of the EFIF, welcomed members and observers to the event.

Referring to the core objectives of the EFIF,² the June EFIF event enabled members and observers to:

- learn about developments in the design and operation of innovation facilitators across the EU;
- hear from a third country financial authority about innovation facilitator related initiatives and about digitalisation related topics in more general;
- get a preliminary overview of the results from the EFIF survey identifying examples of ‘real life’ cases in which challenges have arisen in relation to the determination of whether a provision of a financial services, using digital means, is to be considered a ‘cross-border provision of services’;
- get an update by the European Commission on the implementation and timeline of the EU Digital Finance Platform as a key priority action of the Digital Finance Strategy;
- get an update on work done by the dedicated EFIF project team on cross-border testing and the opportunity to share views on a revised and close to final procedural framework for cross-border testing;
- get an overview of the feedback received from EFIF members on measures to support the uptake of RegTech in the EU and have a discussion on the potential role of EFIF in facilitating the scaling up of innovation for RegTech in the EU;
- get an update on the feedback received from EFIF members on the draft of the EFIF work programme covering the period until the end of 2022 and an overview of next steps;
- get to know the New EFIF Chair.

¹ Format: conference call hosted by EIOPA.

² See the Terms of Reference: <https://esas-joint-committee.europa.eu/Pages/Activities/EFIF/European-Forum-for-Innovation-Facilitators.aspx>

Innovation facilitators: Developments

Members provided an update on:

- the latest developments in operation of their innovation hubs and regulatory sandboxes since the April 2021 event; and
- progress in the establishment of innovation hubs and regulatory sandboxes in cases where such initiatives are ongoing (e.g. public consultations, progress of legislative measures etc.).

The majority of members did not report significant changes and updates in the functioning of their innovation facilitators, while some members updated on the following developments:

- one member reported the launch of their regulatory sandbox in June, which included an online event;
- another member reported about the preparation for the establishment of a regulatory sandbox for which legislative changes are not required;
- another member announced their plan to set up a funded GovTech sandbox programme in 2021;
- one member reported that the annual report about the activities in their innovation hub in 2020 was published in May;
- one member reported that the assessment of regulatory sandbox projects was completed in May and that 18 projects have been accepted for testing in their regulatory sandbox;
- another member noted the publication of supervisory principles for the use of algorithms in decision-making processes by financial institutions, which are intended to promote the responsible use of big data and artificial intelligence and facilitate control of the associated risks;
- one member reported that they are currently conducting surveys on the digital revolution as well as on digital banks;
- one member noted that they plan to host a Tech Sprint on the explainability of credit risk predictive models based on machine learning at the beginning of July;
- one member announced the launch of a working group, which will assess and address obstacles encountered by innovative firms in the authorisation process;

- another member reported that they have carried out a mapping exercise among national professional associations to better understand where rules may inhibit the adoption of new technologies;
- another member reported that they will test an ESG reporting tool for firms in an international sandbox context;
- one member reported that they hosted a sustainability event in June, which included multiple panel discussions and presentations about this topic.

Perspectives from a third-country authority: The UK FCA’s Scalebox and the Digital Sandbox pilot

EFIF members exchanged views with the UK FCA about the FCA’s plan to create a Scalebox to support growing FinTechs and to develop a second iteration of the Digital Sandbox focussing on green finance and ESG use cases.

In line with a respective recommendation in the Kalifa Review³, the FCA set out steps it will be taking to deliver for a Scalebox. In particular, it is planned to make the Scalebox always open to firms and to clarify the scope of qualifying propositions to ensure as many firms as possible are able to access support.

The second iteration of the FCA’s Digital Sandbox will be launched in conjunction with the City of London Corporation. It invites applications to test proof of concepts focussing on green finance and ESG use cases.

Presentations:

- Maha El Dimachki, Head of Department, Innovation Division, UK FCA
- John Yeo, Manager RegTech, Innovation Division, UK FCA.

Provision of services cross-border: The digital dimension

At the April EFIF event members agreed that a short and targeted survey should be carried out to identify issues relating to the classification of services offered by

³ <https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech>.

digital means as a ‘cross border provision of services’ in view of the ESAs’ past work and sense of increasing relevance of the issues in view of the digital acceleration.

22 competent authorities representing 14 EU and EEA States responded to the survey, which was launched on 20 May.

The preliminary results show that 50% of respondent competent authorities reported cases in which a digital means has been used to facilitate the provision of financial services in their jurisdictions and challenges have arisen in determining whether there was a ‘cross border provision of services’.

All respondent competent authorities think that challenges in determining whether an activity constitutes a cross border provision of services will increase in relevance as digital means are used increasingly to facilitate the provision of services cross border.

Concerning the European Commission interpretative communications⁴, the overwhelming majority of respondent competent authorities believe that these communications require an urgent update. In addition, a significant number also indicated that the communications should be expanded to other financial or non-financial) services.

Among several other points, a significant number of competent authorities reported challenges (as hosts) in carrying out conduct supervision relating to services carried out cross border in their jurisdictions. In particular, competent authorities noted a lack of ex ante visibility over service provision⁵, a lack of visibility over the business model and limits on the powers available to host competent authorities.

⁴ Including on the freedom to provide services and the interests of the general good in the Second Banking Directive (97/C/209/04) and on the freedom to provide services and the general good in the insurance sector (2000/C/43/03).

⁵ This includes in particular no or ineffective notifications to home authority/ ineffective onward transmission to host infrequent (e.g. annual) information exchange focus on prudential rather than conduct of business/ consumer protection information resulting challenges in identifying local issues at a sufficiently early stage to mitigate risks of detriment).

EFIF members will receive the complete findings in summer, which will also be transmitted to the European Commission and referred to in the context of the ESA response to the EC's Call for Advice on Digital Finance⁶.

There will be an update later in the year on whether any additional actions regarding the provision of services cross-border will be proposed.

EU Digital Finance Platform: Update on Developments

European Commission staff provided members with an update on the implementation and the timeline of the EU Digital Finance Platform as a key priority action of the Digital Finance Strategy.

The objective of the Platform is to connect digital finance stakeholders and public authorities across the EU on a continuous basis, helping to foster innovation and growth in the financial sector for the benefit of consumers and businesses. The idea was developed in light of the experience and success of the Digital Finance Outreach carried out by the Commission's Directorate for Financial Stability, Financial Services and Capital Markets Union in spring 2020.

Preparations for the launch of the Platform are in full swing. The functionalities of the Platform are being defined, taking into account the experiences and input of stakeholders such as the EFIF, the ESAs and industry organisations. To move quickly, the European Commission has decided to set the Platform up in two stages: in a first step, a slightly lighter version of the Platform is set to be launched by early December 2021. In a second step, a more complex version is set to be launched in early 2022.

To ensure that the Platform effectively meets the needs of its core users, and offers them services as bespoke and useful as possible, the European Commission asked members for detailed feedback on some of the functionalities.

⁶ EC Call for Advice on Digital Finance:
https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/21.02.02-call-advice-esas-digital-finance_en.pdf

Members were invited to provide the European Commission with their views about the Platform in written format by 8 July.

Procedural framework for cross-border testing: Exchange of views

The dedicated EFIF project team for cross-border testing⁷ provided members with a third draft of a procedural framework for cross-border testing in the EU in advance of the event.

The draft framework sets out the rules of procedure that follow after (a) firm(s) has/have indicated interest in involving multiple NCAs from two or more EU Member States in its/their testing activities. The addressees of the framework are all NCAs in the EU, which have indicated interest to participate. The objective of the framework is to facilitate the scaling up of innovative products and solutions across the EU.

EFIF members were invited to share views about the draft with a particular focus on the implemented key changes, on the criteria for firms to be eligible to submit a request for the involvement of multiple NCAs in regulatory sandbox testing as well as on visibility of the framework towards the industry.

Members were invited to send additional views about the framework in written format to the EFIF Secretariat by 16 July.

Taking into account the feedback from members, it is planned to submit the framework to the Joint Committee meeting in autumn. The document will then go for approval to the Board of Supervisors of the three ESAs.

Update on the RegTech work

EBA staff provided members with an update on the EBA RegTech Report⁸ and an overview of the feedback received from members on measures to support the

⁷ The team was launched in November 2020 and includes a number of EFIF Members.

⁸ EBA RegTech Report: <https://www.eba.europa.eu/eba-assesses-benefits-challenges-and-risks-regtech-use-eu-and-puts-forward-steps-be-taken-support>.

uptake of RegTech in the EU followed by a short discussion on the ESAs' proposed next steps for the EFIF to facilitate the scaling up of innovation for RegTech in the EU.

The EBA Report on RegTech is an analysis of the current RegTech landscape in the EU with a special focus on AML/CFT, fraud prevention, regulatory reporting, creditworthiness assessment and ICT security segments. The Report assesses the overall benefits and challenges faced by financial institutions and RegTech providers in the use of RegTech. It also identifies potential risks arising from institutions using RegTech solutions that supervisors will need to address and proposes actions designed to enhance knowledge and skills in competent authorities. These actions also aim to ensure technological neutrality in regulatory and supervisory approaches to RegTech, whilst addressing any inadvertent obstacles within the Single Market to facilitate the adoption of innovation, including RegTech, across the EU.

Referring to the feedback received from members and to the EFIF work programme, the ESAs proposed the way forward regarding RegTech. In this context it was proposed to use the next EFIF meeting to identify potential areas of focus and to start thinking about potential industry representatives to be invited to present use cases. In addition, it was proposed to have a regular standing item on RegTech at future EFIF meetings to discuss selected supervisory/regulatory issues and potential solutions.

During the following discussion, members were invited to share their views on whether they agree with the proposed way forward for EFIF on RegTech and whether they see value in organising a dedicated EFIF event on RegTech in Q1 2022.

Any views from members to the ESAs in written format about the proposed way forward for EFIF on RegTech is appreciated by 16 July.

EFIF work programme 2021/2022

Referring to the respective call for input, ESMA staff provided members with an overview of the feedback received from members on the draft EFIF work programme for 2021 and 2022.

The proposed EFIF work programme for the new period upholds the current EFIF priorities and proposes one more additional thematic area of ‘Green FinTech’.

Discussions showed that members appreciated the inclusion of ‘Green FinTech and green sandboxes’ as an additional area of thematic focus of the EFIF for the period 2021/22. Similar to what is foreseen for the other areas of thematic focus, the EFIF is supposed to identify ‘green’ use cases, initiatives and regulatory and supervisory issues arising; and to share experiences with a view to promoting a common response to innovative technologies enabling sustainability and a ‘greener’ economy.

The EFIF work programme was sent to the Joint Committee in June in the context of the approval of the ESAs’ Joint Committee work programme. In the next step it is planned to submit it to the three ESAs’ Boards of Supervisors for formal approval.

Handover of EFIF Chairmanship from EIOPA to ESMA

Referring to the cross-sectoral nature of the EFIF, the EFIF Terms of Reference⁹ state that one of the three ESAs, on a rotating basis, should chair the forum.

For this reason Tim Shakesby, Chair of the EFIF, introduced to members the new Chair: Claudia Guagliano, Team Leader in the Innovation and Products, Risk Analysis and Economics Department at ESMA.

ESMA will take over the Chair of the EFIF on 1 August.

AOB

It was announced that the next EFIF event is scheduled for 5 October.

As multiple new innovation facilitators were launched across the EU in the previous months, members were informed about the fact that the list of innovation

⁹ EFIF Terms of Reference: <https://esas-joint-committee.europa.eu/Publications/efif/EFIF%20Terms%20of%20Reference.pdf>.

facilitators in the EU¹⁰, which is available on the EFIF webpage, has been updated respectively. In this respect, members were encouraged to check whether the information about their innovation facilitators is complete and correct now.

¹⁰ List of innovation facilitators in the EU: <https://esas-joint-committee.europa.eu/efif/innovation-facilitators-in-the-eu>.