Summary of Conclusions

EFIF conference call, May 2022

1. Opening remarks by ESMA

ESMA opened the meeting by welcoming participants and thanking EFIF members for the input they provided for the meeting. ESMA also thanked the EBA and EIOPA for effective cooperation since the establishment of the EFIF, welcomed the participants and let the new members to present themselves to the Forum.

2. Innovation facilitators: Update on Developments

Based on the input provided in the innovation facilitators Newsletter, EFIF members shared updates on 1) the developments in the design and operation of their innovation facilitators (e.g., plans regarding a sandbox, changes in staff, performance assessments, etc); and on 2) the innovative products and trends identified through the hubs and sandboxes (the number of requests/firms received, the distribution of such requests across innovations, specific cases to share, etc.).

Main interventions: Most EFIF members updated on the developments in their jurisdiction through "a tour de table".

Discussion: In the tour-de-table, members noted the continued prevalence of NFT-based services and increasing number of inquiries in their jurisdictions. Several NCAs released thematic and annual cross-sectoral reviews/surveys covering a range of topics, including Big Data, AI/ML, cloud services, blockchains and smart contracts, etc. Some NCAs noted the growth of requests from 'buy now pay later' (BNPL) and micro-lending business models, which several NCAs reported were becoming more common in their jurisdictions. Other areas of interest included the qualification of services provided by CASPs and how MiCA will be applied in context of existing national regimes, tokenisation queries from gaming, collectibles industries, DLT, DeFi, robo-advisory, using tech to automate ESG ratings.

3. Cyprus: plans to establish a regulatory sandbox

CySEC explained the motivations behind the plan to introduce a regulatory sandbox in Cyprus.

Main interventions: N/A

Discussion: N/A

4. RegTech

— **Presentation by Massimiliano Delle Donne, co-founder of KORE**

KORE presented their RegTech solution, which is an interface for process management specific to the needs of the financial services industry. The tool is intended for product lifecycle management in financial services, an industry in which these processes are currently highly regulated, often manual and inefficient. This can lead to product governance failures and slow business processes. The Kore solution is an end-to-end product management tool that enables clients to configure their platform to adapt to changing products or regulations. In a case study of a large European banking group, Kore illustrated how the tool is intended to address complexity, risk, processes and technology management.

- **Presentation by Andrea Tesei, Aptus.AI**

Aptus.AI presented their RegTech solution that provides financial institutions (banks predominantly) a compliance tool enabled by converting regulations into AI-based machine-readable format, including by providing automatic impact analysis on internal policies and legal documentations. Regulatory analysis and tracking is time-consuming and resource intensive which can lead to delays that jeopardise compliance in the financial services industry. Using a sample compliance workflow process, Aptus.AI showed how its tool (Daitomic) can apply automated AI analysis to make documents machine-readable. Human oversight is not removed from the process. Instead, the tool optimises for human interventions based on time and routes tasks to the appropriate supervisors on a skills basis (i.e., as it relates to the type of regulatory assessment that may be needed).

Discussion: Questions from EFIF members focused on whether each tool would also work for the insurance and securities sectors (since the case studies only featured banking groups), whether the tools can be tailored to specific needs of regulators and NCAs across jurisdictions (and if they use other third-party partners), and about the energy intensively of the Aptus.AI tool's computational needs.

Representatives from Kore and Aptus.AI confirmed they're working or about to unveil new use cases specific for the securities and insurance sectors. Kore also has a 'sandbox environment' that would allow users to test the tool before committing to see whether it can meet their specifications.

Both the Kore and Aptus.AI platforms are 100% in-house (no third-party partners), but as SaaS companies, they have contracts with cloud providers for some of their operational needs. The Aptus.AI Milano Hub project revealed its electricity consumption is not much of an issue for training AI models if compliance procedures are based on standardised machine-readable formats. This would exploit the 'base' level of electricity needed because it lowers the computing power needed.

Another capability the Aptus.AI tool claimed to support is impact assessments of new regulations (e.g., DORA, MiCA, AI Act). Aptus.AI responded that this is part of their iterative process of involving the human element in designing the AI process.

Both found the cross-border testing framework proposed by the EFIF (EU digital finance platform) potentially useful in bringing their tools to more jurisdictions.

5. EU Digital Finance Platform update

— **Presentation by DG FISMA (EC)**

FISMA presented an update on the EU Digital Finance Platform and the next steps for the project. Popular features on the platform (which have received the most user engagement since launch) are the European FinTech map and the policy corner.

A new EU Digital Finance Data hub is still work in progress. The COM is now testing the possibility to create synthetic data (modelled on real data). Phase II of the Platform (including the data hub) is expected to be launched and go live in 2H 2023.

Activity on the platform has waned since its launch so COM will initiate a promotion effort with national and European organisations to raise awareness of the tools available to firms in many jurisdictions.

Discussion: EIOPA expressed support for the outreach program and need to promote the platform in all of the national markets. Some NCAs said they were planning to or had questions about directing traffic from innovation pages to the Platform website. It was acknowledged that the log-in home page may dissuade some users from engaging further with the Platform.

6. Pan-European blockchain regulatory sandbox

— **Presentation by DG CNECT (EC)**

DG CNECT presented on the COM-sponsored pan-European sandbox for safe-testing of innovative applications in the area of blockchain and DLT. The thematic sandbox is envisioned to cut across different industry sectors and involve both national and EU regulators.

The initiative will feed into the EU Digital Finance Platform and will involve participation from the national innovation hubs and sandboxes. Aiming to become operational by end-2022. Legal questions surrounding the sandbox will be determined in consultation with the relevant national authorities.

Discussion: Questions from members focused on what format the sandbox will take (testing and pilot regime or a venue for shared legal/regulatory dialogue), the link with the DLT Pilot regime regulation, whether COM will consider the energy impact of DLTs, authorisation requirements for firms in the sandbox, which sectors are included in the theme, whether the sandbox will grant the testing firms legal exemptions or privileges, and how the sandbox will report activities.

National regulators are encouraged to bring cases to the sandbox in areas that may benefit for a cross-sectoral and cross-border application. Unlike the EU's AI sandbox, the legal basis for the blockchain sandbox does not have a 'per se' mandate based on regulation. The sandbox will offer no derogations or exemptions for testing firms. It is entirely intended to facilitate dialogue and legal advice for start-ups that may wish to enter the sandbox. Reporting will occur after each of the three cohorts closes and will be led by the facilitator / operator.

7. EU Supervisory Digital Finance Academy

— **Presentation by DG REFORM (EC)**

DG REFORM presented the origins and the objectives of the Academy. It is a program of the Technical Support Instrument (TSI), which member states can request for services that support domestic reform programs. Within the financial sector, the TSI areas include prudential supervision, financial innovation, consumer literacy, AML/CTF, green finance and more. The Academy is a flagship project of the Commission's Financial Sector and Access to Finance policy area launched in 2022. Participation is open to NCAs (supervisors).

Structure of the program: Two weeks of training each year with thematic workshops in between. First cycle begins in October (one year cycle repeated three times). Program will extend until Q3 2025 when a final regulatory report is due. Expecting a hybrid format with both online and in-person sessions and an online platform that will host content. Trainers will come from the ESAs, NCAs and the EUI.

Next steps: Designing the curriculum through NCA survey & interviews and a 'teaser event'. Main topics to cover are (tentatively) AI/ML, ICT and cyber resilience, financial literacy, mystery shopping, APIs, etc.

Also briefed on the forthcoming TSI 2023 flagship project on ESG risk in the financial sector.

Discussion: Questions focused on the timing of the survey, who would have access to the online content hub, how to apply for the Academy's next cycles, and the expected curriculum. It was clarified that each institution that has already applied would not have to apply again (or annually)—i.e., current participants have access to all three years (or cycles).

8. FCA digital sandbox

— **Presentation by FCA**

FCA presented on the FCA's digital sandbox, which is a web-based collaborative pilot platform that operates separately from the FCA's existing technology 'estate'. The sandbox provides market participants with access to high quality (synthetic) data sets, an IDE for programming, an API marketplace and an 'observation deck'. In particular, the platform hosts a library of over 100 datasets related to consumer transactions, asset resolutions and building energy use. Since November 2020, the digital sandbox has hosted two innovation cohorts and two 'TechSprints' on topics including women's economic empowerment, sustainable finance, and ESG data/disclosures.

Outcomes of the sandbox cohorts include accelerated product development, higher demand for mentorship, a important number of registered users on the platform and a quality score on synthetic data utility that reflects a trade-off between privacy and usefulness. As a next step, the sandbox will be used to support FCA's priorities, enable wider regulatory collaboration and future-proof other innovative financial services.

Discussion: Questions centred on why synthetic data is not received as favourably (as real data) and whether the efficacy of synthetic data depends on the specific use case being tested. Participants also asked if the sandbox tested consumer comprehension of products and about whether the FCA sandbox goes further than simply knowledge-sharing?

FCA representatives said the shortcomings of synthetic data has to do with the number of relevant variables to be explored. Real data is of course superior, but it risks failures of pseudonymization of

the underlying data points (i.e., personal information) and invites further legal/reputational risks for supervisors. The onboarding process for those who plan to use real data on the platform is therefore more rigorous.

As a collaboration platform to drive adoption of SupTech tools, the digital sandbox is working with the GFIN to identify solutions in common. A 'lessons learned' report will be published for cohort no. 1 of the GFIN cross-border sandbox soon. For the next cohort, FCA is aiming to 'digitize' the process and find partners who are ready to expend resources on a more intensive level of collaboration.

9. Multiverse Computing: quantum computing for the financial industry

— **Presentation by Multiverse Computing**

Multiverse Computing presented an overview of the company and the quantum computing applications currently in practice in the financial services industry. It was noted that existing quantum computers are not yet ready to be applied for real use cases in finance but explained that different quantum-inspired techniques can be applied, with great results. Moreover, prototype quantum computers are already exceeding the computing capabilities of standard computers. The market for quantum computing is expected to reach USD 13.3bn by 2023, with some applications (optimisation of portfolios, investments, capital allocation, or simulation of macroeconomic scenarios and stress-testing financial stability) arriving sooner than others (all while using real data in real settings). For the moment, the industrial value of quantum computing is already being realised in areas such as portfolio optimisation, fraud detection or credit scoring.

Discussion: Questions related to the regulatory obstacles and opportunities in the EU for the use of quantum computing in the financial sector as well as the technical aspects of quantum computers and which specific types / technologies will win the race (and what the secondary effects of this technology arms race will be). Other areas of concern for participants were cybersecurity and environmental issues posed by quantum.

The firm responded that there are no current obstacles for quantum computing in the EU (nor is there any regulatory framework for the technology) unless the EU chooses to label quantum a 'double use' technology (civilian and military), which may introduce new restrictions. At the same time, most of the hardware providers are American, so any policies that enable EU companies to become more competitive would be welcome. Some models of quantum computers require extreme cold temperatures. This may raise environmental and other resource use concerns. And quantum is both a threat and a solution for cybersecurity issues (especially as it relates to cryptographic protocols). It can enhance security or render systems less secure.

10. Closing remarks

ESMA closed the meeting by thanking all the members and contributors for their active participation, adding that the next meeting is planned for October (tentatively) in a hybrid online format.