“FINTECH: BALANCING INNOVATION & REGULATION”

Presented by:
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Securities Commission of The Bahamas
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WHAT IS FINANCIAL TECHNOLOGY (FinTech)?

Technology-abled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services, having the potential to transform the financial services industry.

FINTECH: TRANSFORMING THE FINANCIAL SERVICES INDUSTRY

Payments & Settlements
- Digital Wallets & Mobile Payment
- Virtual Currency
- Peer-to-Peer Lending

Trading & Investments
- Equity Crowdfunding Platforms
- Robo Advisors
- Digital Assets & Exchanges

Distributed Ledger Technology (DLT)
- Digital Identification
- Smart Contracts

Compliance
- Regulatory Technology (RegTech)
DEVELOPMENTS IN PAYMENTS & SETTLEMENTS

Digital Wallets & Mobile Payment
- Electronic applications that allow storage of personal credit card/debit card or digital coupon information to allow for easy and ongoing purchases.
- Usually operate along with mobile payment applications to allow purchases of goods/services via mobile devices and allows for contactless payments.

Virtual Currency
- Virtual currency refers to a digital representation of value, which can be digitally traded. Virtual currencies may function as a medium of exchange, unit of account or store of value, but do not carry legal tender status. Examples include Bitcoin, Litecoin and Ethereum.

P2P Lending
- Peer-to-Peer lending platforms allow investors to lend money to borrowers, oftentimes establishing their own stipulations if the platform does not have its own. Examples include Upstart and Lending Club.
## Payments & Settlements Solutions: Benefits & Risks

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
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<tbody>
<tr>
<td>• Reduced Consumer Costs</td>
<td>• Non-regulated entities</td>
</tr>
<tr>
<td>• Efficiency and convenience</td>
<td>• Anonymity (in virtual currency trading)</td>
</tr>
<tr>
<td>• Transparency (of transaction records)</td>
<td>• Information Asymmetry in pricing</td>
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<tr>
<td>• Access to loans</td>
<td>• Cross Border risks</td>
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<tr>
<td>• Lower Interest rates</td>
<td>• Fraud risks (by both operators and users)</td>
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<tr>
<td>• Financial Inclusion</td>
<td>• Cyber risk</td>
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DEVELOPMENTS IN TRADING & INVESTMENT

Equity Crowdfunding
- Equity crowdfunding platforms allow individuals to invest in a new company in exchange for shares in the company. Examples include Crowdfunder and Circle Up.

Robo Advisors
- Online services that provide automated portfolios and advice based on individual preferences, including time horizon, risk tolerance and goals. Examples of Robo Advisors are Vanguard and Betterment.

Digital Assets and Exchanges
- Digital assets are digital representations of value distributed through a DLT platform where value is embedded or in which there is a contractual right of use.
## Trading & Investment Solutions: Benefits & Risks

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
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<tbody>
<tr>
<td>• Greater access to equity finance (capital raising), particularly for SMEs</td>
<td>• Disclosure risks</td>
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<tr>
<td>• Investment opportunities for small investors</td>
<td>• Cross border risk</td>
</tr>
<tr>
<td>• Access to low fee investment accounts</td>
<td>• Cyber risk</td>
</tr>
<tr>
<td>• Low cost Portfolio-theory based advice</td>
<td>• Anonymity (AML/CFT Concern)</td>
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<td>• Increased market participation</td>
<td>• High volatility</td>
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<td>• Opportunity for growth in the industry</td>
<td>• Client suitability</td>
</tr>
<tr>
<td>• New business models that can lead to specialisation in the financial profession</td>
<td>• Unfair and Selective algorithms (complex algorithms; risk of error in algorithms)</td>
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<tr>
<td>• Access to larger range of investment opportunities</td>
<td>• Liquidity Risk</td>
</tr>
<tr>
<td></td>
<td>(for equity investments)</td>
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<tr>
<td></td>
<td>• Unlicensed entities</td>
</tr>
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<td></td>
<td>• Use of third party services</td>
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# REGULATORY TECHNOLOGY (RegTech)

- Innovative technologies designed to facilitate market participants’ ability to meet their regulatory compliance obligations.

<table>
<thead>
<tr>
<th>Uses</th>
<th>Benefits</th>
<th>Risks</th>
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<tbody>
<tr>
<td><strong>Surveillance and monitoring</strong></td>
<td>Enhanced risk management</td>
<td>Due Diligence of third party technical vendors</td>
</tr>
<tr>
<td>Customer identification and AML compliance</td>
<td>Increased and Automated Compliance</td>
<td>Customer data confidentiality/privacy</td>
</tr>
<tr>
<td>Reporting and risk management</td>
<td>Efficiency in Surveillance</td>
<td>Cyber Risks</td>
</tr>
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Innovative technologies designed to facilitate market participants’ ability to meet their regulatory compliance obligations.
Harnessing Opportunity: Implications for Market Participants

RegTech

- Efficiency in monitoring the legislative landscape for arising compliance requirements
- Improving analysis of market data
- Tracking client accounts

New Areas for Specialization

- Fulfilling capacity gaps in the market: Cyber Security Professionals, DLT providers, Digital asset service providers, Cybersecurity insurance, experts in cryptography

Efficiency in Operations

- Use of SMART contracts and Digital IDs to improve operational efficiency and improve financial inclusion efforts
### Regulatory Concerns Amid FinTech developments

- Major regulatory concerns can be grouped into three categories:

<table>
<thead>
<tr>
<th>Market Integrity</th>
<th>Consumer Protection</th>
<th>Financial Stability</th>
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<tbody>
<tr>
<td>• Unlicensed and Non-regulated market participants</td>
<td>• Fraud Risk</td>
<td>• High Price Volatility of Digital Assets</td>
</tr>
<tr>
<td>• Anonymity and AML Compliance Concerns</td>
<td>• Cyber Risk (data privacy and protection)</td>
<td>• Cross Border Risks</td>
</tr>
<tr>
<td>• Information Asymmetry</td>
<td>• Insufficient Client Suitability Tests</td>
<td>• Liquidity Risk</td>
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REGULATORY APPROACHES

- Adapting relevant regulatory frameworks
- Developing FinTech related legislation
- Co-operation and sharing of information among regulators
- Formation of consultation networks/working groups
- Creation of Regulatory Sandboxes
- Educating market participants on regulatory expectations
- Promote knowledge sharing/engagement between public and private sectors
- Monitor developments
IOSCO PERSPECTIVE

- Launched ICO Network
- Establishment of Fintech Network
- Published IOSCO Research Report on FinTech
- Held Board discussion on risks associated with growing use of ICOs to raise capital
- Issued a public statement warning investors of risks and challenges with ICOs
- Hosted IOSCO workshop on Crypto Assets
Commission Crypto Initiative

- Consultant engaged to assist with development of regulatory framework
- Provide clarity to market
- 3 Phase Project
  - Review & comparison of crypto policies across leading jurisdictions
  - Draft crypto policy highlights to point out key areas to be discussed with stakeholders
  - Drafting of detailed crypto policy to be issued to the market
Digital Assets and Registered Exchanges Bill, 2019 (DARE, 2019)

- A Bill for an Act to regulate the issuance, sale and trade of digital assets in or from within The Bahamas
- Regulates issuers of initial token offers
- Calls for registered sponsors to facilitate initial token offers
- Regulates digital asset businesses, including digital asset exchanges
- Bill and White Paper to be released for public consultation shortly
- Policy Paper to follow
GLOBAL REGULATORY APPROACHES TO DIGITAL ASSET REGULATION

ICO Guidelines; Monitoring
Digital Asset Legislation
Banned

U.S.A
Bermuda
Bahamas
U.K.
Switzerland
Malta
China
Thailand
Singapore
Market Statistics

- Number of ICOs for 2018: 1,257
- Total raised in 2018 ICOs: USD $7,852,477,043
- There are over 100 crypto exchanges. Trading volume and market data of selected exchanges are presented (as at 25 February 2019):

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Trade Volume (30 d) in USD</th>
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<tr>
<td>BitMex</td>
<td>26,749,981,657</td>
</tr>
<tr>
<td>Binance</td>
<td>17,575,288,369</td>
</tr>
<tr>
<td>Bithumb</td>
<td>27,853,222,050</td>
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Data derived from https://coinmarketcap.com/rankings/exchanges/reported/ and https://www.icodata.io/stats/2018
### Conclusion and Implications for Market Participants

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<th>IMF &amp; World Bank’s Bali Fintech Agenda</th>
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<tbody>
<tr>
<td><strong>Embrace the Promise of FinTech</strong></td>
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<td><strong>Enable New Technologies to Enhance Financial Service Provision</strong></td>
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<td><strong>Reinforce Competition and Commitment to Open, Free and Contestable Markets</strong></td>
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<tr>
<td><strong>Foster Fintech to Promote Financial Inclusion &amp; Develop Financial Markets</strong></td>
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<td><strong>Monitor Developments Closely to Deepen Understanding of Evolving Financial Systems</strong></td>
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<td><strong>Adapt Regulatory Framework and Supervisory Practices for Orderly Development and Stability of the Financial System</strong></td>
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<tr>
<td><strong>Safeguard Integrity of the Financial Systems</strong></td>
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<tr>
<td><strong>Modernize Legal Frameworks to Provide an Enabling Legal Landscape</strong></td>
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<tr>
<td><strong>Ensure the Stability of Domestic Monetary and Financial Systems</strong></td>
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<td><strong>Develop Robust Financial and Data Infrastructure to Sustain FinTech Benefits</strong></td>
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<td><strong>Encourage International Cooperation and Information Sharing</strong></td>
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<td><strong>Enhance Collective Surveillance of the International Monetary and Financial System</strong></td>
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THANK YOU!
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