

The Road to RegTech: EU Big Bang II and the Future of Data Driven Finance

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Balancing objectives

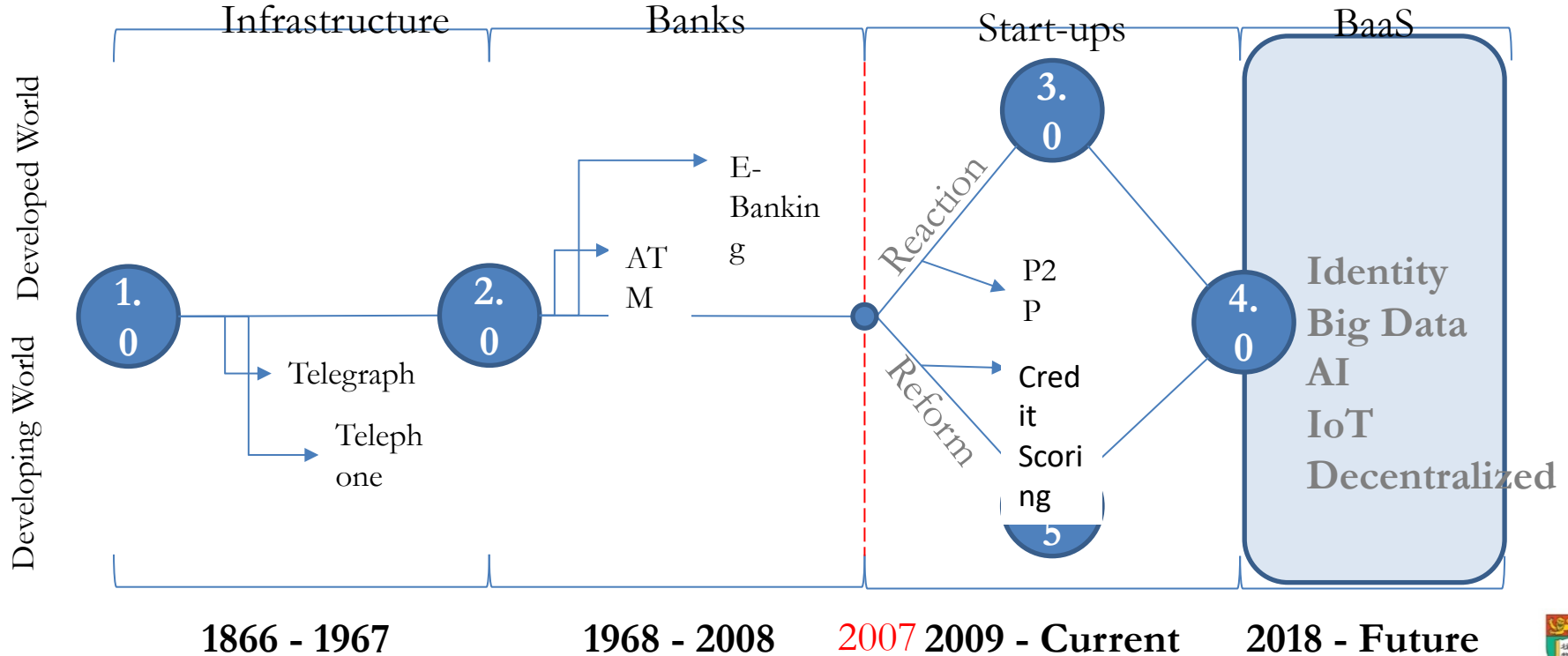
- Development
- Integration
- Stability

Looking forward

- Technology
- Digitisation
- Datafication

The Evolution of FinTech:

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2676553



The challenge

- Financial regulation
- Data regulation
- RegTech

RegTech and the Reconceptualisation of

RegTech digital disruption is not just about greater efficiency
in existing processes
but new processes altogether.

RegTech and the Reconceptualization of Regulation

SSRN: <http://ssrn.com/abstract=2847806>

RegTech Reconceptualization



RegTech encompasses industry and regulators

Financial institutions and industry

- Major drivers of RegTech development
- Demand efficient tools to deal with regulatory and compliance demands
- Global firms developing centralized risk management

Regulators

- Lag in regulator adoption relative to private sector
- Yet need to develop systems to deal with rivers of new data and cybersecurity

Start-ups

- Incentives to trade off-data for faster market entry
- Automation of reporting and compliance more aligned with lean business model



Evolution of EU finance

- 1986 Single European Act: Big Bang I in the UK
- 1992 Maastricht Treaty
- 1995 White Paper
- 1999 EMU / Financial Services Action Plan
- 2001 Lamfalussy Report
- 2009 de Larosiere Report
- Banking Union
- 2018 Big Bang II?

EU Big Bang II?

- MiFID 2: Markets in Financial Instruments Directive 2 – transparency across markets
- GDPR: General Data Protection Regulation
- PSD 2: Payment Services Directive 2 – open API banking
- eIDAS Regulation

Evolution of Digitisation, Datafication and RegTech

- Post-crisis financial regulation: AIFMD (2011/2013), CRR/CRD IV (2013/2014), MiFID I/II/MiFIR (2014/2018), AMLD 5 (2018 / 2020)
- Reporting requirements: digitisation / datafication / RegTech revolution – industry / regulators
- Merrill Lynch (2017, FCA): gbp34.5 m / 68.5m exchange traded derivatives (Feb 2014-Feb 2016)
- ESMA etc
- Objectives / results

Data regulation

- GDPR
- Principles
- Consent / ownership / portability
- Data management / compliance
- Objectives / results

Open banking

- PSD 1: Single Euro Payments Area
- PSD 2
- Collection / digitisation / repackaging / datafication / management
- Transfer ...
- Objectives / results

Plus

- Digital identity: eIDAS

Comparisons

- Financial regulation / data regulation / open banking
- Public sector / government / private sector
- US: FaceBook ...
- China: TechFin ...
- India: India Stack
- Different policy and cultural contexts
- Similar challenges

Implications: EU / elsewhere

- New entrants / risks / models: level playing field / regulatory arbitrage / shadow banking / proportionality
- RegTech
- New risks

International

- US / China: data giants
- Third countries: data majors / competition / cross-border
- Social / political / cultural preferences

Regulatory challenges

New emerging FinTech companies often have limited track records regarding their business (*eg risk management, liquidity and profitability*) and difficulty identifying their obligations (*eg applicable regulations or licences*).

For regulators, these early-stage companies represent a limited prudential & consumer risk. However, exponential company growth can create “risk blind spots”. Additionally, frequent failures or fraud can impact market or investor confidence.



RegTech+ : Smart Regulation

Information and monitoring – FSB (2017)

Systems design

Digitisation

Datification

Regulatory Sandboxes



Looking Forward

- Cybersecurity risks
- Technological risks: New infrastructure
- Data security / protection
- Interoperability / connectivity
- TechFin / BigTech
- International / regional cooperation

Risk areas

- Cyber: number 1 national security, public security AND financial stability risk
- Incumbents
- Infrastructure: old and new
- New entrants: small and large
- Regulators / governments
- Markets: Flashcrash ...

TechFin

- Network effects
- Competition
- Regulation
- Non-traditional infrastructure

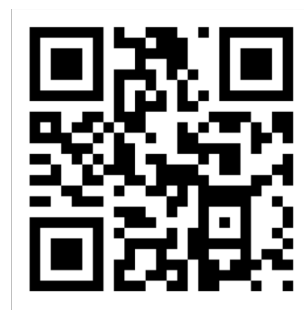
FinTech Evolution

<https://ssrn.com/abstract=2676553>



TechFin

<https://ssrn.com/abstract=2959925>



DFS in China

<http://ssrn.com/abstract=2660050>



RegTech

<https://ssrn.com/abstract=2847806>



Sandboxes

<https://ssrn.com/abstract=3018534>



DLT liability

<https://ssrn.com/abstract=3018214>



Introduction to FinTech:

The world's largest FinTech online course, with edX

<https://www.edx.org/course/introduction-to-fintech>

