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IOSCO/MR/02/2017

Madrid, 08 February 2017

IOSCO analyzes potential of tech-driven change in the securities market industry

A new report published today highlights the increasingly important intersection between financial technology (Fintech) and securities market regulation, and describes the impact it has on investors and financial services.

The *IOSCO Research Report on Financial Technology*, published by the International Organization of Securities Commissions (IOSCO), describes a variety of innovative business models and emerging technologies that are transforming the financial services industry, including:

- *financing platforms*: peer-to-peer lending and equity crowdfunding;
- *retail trading and investment platforms*, including robo-advisers and social trading;
- *institutional trading platforms*, with a specific focus on innovation in bond trading platforms;
- *distributed ledger technologies*, including application of the blockchain technology and shared ledgers to the securities markets.

The report analyzes both the opportunities and risks that each of these new technologies presents to investors, securities markets and their regulators.

Key trends spur Fintech growth

The report also describes the key trends that are setting the stage for tech-driven change in the financial services industry, including:

- the greater availability of data;

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- exponential growth in computing power that facilitates the analysis of ever larger data sets;
- broader access to and the decreasing cost of goods and services;
- increasing disintermediation and re-intermediation;
- and demographic and generational changes.

These trends are spurring securities regulators to adopt pro-active measures to keep pace with technological innovation and tap its potential for rendering the financial system more inclusive, efficient and resilient. Some regulators have established dedicated Fintech offices, contact points and hubs. Others are launching regulatory sandbox frameworks that enable innovators to experiment with Fintech solutions for financial services. Still other regulators have set up labs and accelerator programs to explore how new technologies can help them better achieve their regulatory objectives.

Concurrently, regulators are addressing the risks associated with Fintech. Though these risks differ depending on the technology, certain risks are recurring across the Fintech sector, such as those arising from unlicensed cross-border activity, programming errors in the algorithms that underlie automation, breaches in cyber security, and the failure of investors to understand financial products and services.

Another risk is the failure of financial firms to “*know-the-client*” for reasons of anti-money laundering and fraud control. Opening an account through the internet affords clients an opportunity to enter false information that masks their true identity. Similarly, financial firms using automated profiling processes can run the risk of failing to “*know-the-client*” well enough to make suitable investment recommendations.

Cross-border challenges

While tech firms operate globally, regulation is conducted largely within national or sub-national borders. The local nature of regulation may create challenges regarding cross-border supervision and enforcement, whereas regulatory inconsistency across jurisdictions increases the potential for regulatory arbitrage.

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The global nature of Fintech therefore creates challenges that regulators should address through international cooperation and the exchange of information, according to the report, which draws on contributions from the IOSCO Committee on Emerging Risks, the Growth and Emerging Markets Committee and the Affiliate Members Consultative Committee.

NOTES TO THE EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 34 securities regulators. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Jamaica, Japan, Kenya, Malaysia, Mexico, Nigeria, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Korea, Spain, Sweden, Switzerland, the Netherlands, Turkey, the United Kingdom, and the United States of America.
3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia and Vice Chair of the IOSCO Board, is the Chair of the GEM Committee. The Committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

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- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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