

11 October 2018

The Financial Conduct Authority  
12 Endeavour Square  
London  
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**Re: GDF Response to GFIN Consultation document**

## Background

**Global Digital Finance** (GDF) is a new industry body that drives the acceleration and adoption of digital finance technologies to support the next era of digital commerce.

The global formation and distribution of capital has value to both new market entrants and incumbents in financial services.

Formally formed in March 2018 as a not-for-profit global members association, GDF endeavours to drive efficient, fair and transparent crypto asset markets by building a knowledge base and best practices for “Truly Digital” finance and the benefits tokens can bring all market participants.

We promote an inclusive vision for financial services in which crypto assets and token markets can evolve and grow in complement within traditional financial services.

GDF has developed a code of conduct and taxonomy to drive legitimacy in digital assets.

The CoC and Taxonomy for digital and crypto assets was developed in concert with our over 200 community members and put out to global public consultation for 60 days in June and July of this year. It will be baselined and issued in Q4 2018.

We believe digital / crypto assets to be a priority area to focus on:

- The rise of digital assets and ICOs is seen by many as a new model for financing but the current landscape is fraught with the potential for scams/fraud and banned or strongly regulated in many jurisdictions
- Digital assets are global in nature and at the G20 in March, global finance ministers called for greater international cooperation
- Industry must take a lead in driving standards based on its market knowledge
- Whilst there are many strong regional industry bodies for the nascent digital asset industry there is not yet a global body that can interface with the global regulatory and policy making bodies (e.g. IOSCO, OECD, FSB, BIS, FATF) and work with national bodies to help share the global voice of industry.

The GDF Advisory Council believes that the GFIN represents one of the best opportunities in the current global regulatory landscape to act as *the* global regulatory forum for the emerging global digital asset industry to interface with.

The document as follows contains the GDF Advisory Council response to the GFIN List of (10) Questions set out in the Consultation document, August 2018. Please find a list of GDF Advisory Council contributors to this document in Appendix 1 of this response.

# Response to GFIN Consultation document

## Q1: Do you agree with the proposed Mission Statement for the GFIN?

A1: GDF is an advocate of collaborative and knowledge sharing initiatives that advance the areas of financial integrity, consumer wellbeing and protection, financial inclusion and financial stability through innovation, through the use of digital financial technologies and assets, and thus GDF is supportive of the GFIN Mission and focus on collaboration with industry led solutions that support the development of a “common language” in new and innovative areas.

As the GFIN is developing its mandate for execution, GDF would like to see the tangible outcomes the network is seeking to achieve in each of the mission components over specific timescales using an Objectives framework, similar to the proposed outline below, agreed by the GFIN members in consultation with the community.

Objective	Examples of Measure(s)
Collaboration / Knowledge Sharing	Sprints, Wiki items, Consultations / mini-consultations, Survey / poll initiations, Deep research initiation, Identified and named knowledge champions, Domain working groups, Links to academic centres of excellence
Financial Integrity	Joint policy development, Codes of Conduct, Taxonomies, Sandbox cohorts, etc.
Consumer Wellbeing and Protection	Consumer adoption rates, Consumer complaints, Consumer Mis-selling cases, Consumer savings and investment, Consumer credit
Financial Inclusion	Demographic / gender adoption rates, Access to banking services, Access to credit
Competition	New entrants, cross border new entrants, FinTech funding
Financial Stability	FinTech funding, Institutional FinTech funding, Policy and execution (e.g. Open Banking), Mis-selling, Regulatory fines
Innovation	FinTech funding, Institutional FinTech funding, Policy (e.g. Open Banking), Cross border sandbox cohorts (number of firms), New licenses, Time to licence, Cross-border licenses, participant satisfaction survey

GDF believes it important that the GFIN bear in mind the two biggest challenges for FInTech innovators related to regulation:

1. Regulatory consistency especially for new and innovative business models, and,
2. Self-regulating, supervisory, regulatory and licensing options for new and innovative business models.

Whilst the GFIN seeks to address the first, increasingly in a cross-border context, consideration should be given to the second, in terms of the longer term aims of new and innovative technologies. For example, in the area of the tokenisation of digital assets, GDF would advocate starting with a self-regulating regime owned and promoted by responsible industry actors, in advance of actions which may be further along the “regulatory life cycle” such as supervision and regulation.

This may be a natural course to take with new and emerging digital assets, where, working in collaboration with industry, the first stage of professional standards and financial integrity are achieved through voluntary adoption of standards or a Self-Regulating Organisation (SRO), recognized by global regulators.

## **Q2: Do you agree with the three main proposed functions for the GFIN?**

A2: GDF agrees in principle with the three main functions the GFIN is proposing:

- A. Network of regulators
- B. Joint policy work and regulatory trials
- C. Cross-border trials.

We would encourage the GFIN to consider the following design features:

- the “process of engagement” from the perspective of the industry participant
  - clarity on objectives, timescales and outcomes of programme initiatives (e.g. cross border sandbox cohorts), application timescales, time to licence, firms’ resources requirements, jurisdiction selection,
  - access to knowledge and information including use cases, statistics, policies, FAQs, wiki data, applications
  - access to staff, case workers, supporting network of humans to answer more complex queries

- the “business support processes” required to enable the four functions
  - cross border support team, infrastructure and technology, communication and events, budgets and finance
- the overall governance model for GFIN, how this will all work together and be funded to adequate levels
  - strategic and operational (day to day) management processes, key measures and reporting, participant / stakeholder satisfaction reporting, talent – recruiting and seconding, collaborating with trade and industry association, infrastructure partners

### **Q3: What aspects/areas of regulation pose the biggest challenge when it comes to innovating?**

A3: GDF and its community of over 200 firms, is principally focused on digital assets in its current programme of work, which to date spans cryptocurrencies and digital tokens. As with any new emerging innovation, products like these may challenge the conventional financial system, especially in the early stages of development, as industry and society seek to find “utility” in the product and its underlying use of technology – new and emerging digital finance technologies that may or may not be covered by current legislation / regulation.

The past year has given global regulators the best “burning platform” to create collaborative networks such as the GFIN to convene to collaborate with industry the development of policies and regulations for digital assets on a global scale.

The volatility of cryptocurrencies, the opaque nature of many Initial Coin Offerings (ICOs), and the variable treatment of these instruments by different jurisdictions has created an uncertain global landscape for both consumers and firms and has created the opportunity for firms to move business and assets to jurisdictions offering preferential conditions to their specific objectives.

From a total ban on cryptocurrencies in China, to regulation of cryptocurrencies as part of the payment’s services act in Japan, to varying levels of both legislation and regulation in Switzerland, Malta and Gibraltar, the global landscape for both consumers and firms is difficult to navigate.

Officials of the US Securities and Exchange Commission have expressed the view that virtually all digital asset tokens must be offered or sold under existing securities law. This

has impacted the offer or sale of tokens categorised as “utility tokens”, which many issuers claim are products and/or services rather than securities.

It has consistently been stated by (western) central bankers that under current circumstances cryptocurrencies such as Bitcoin or Ether do not present a “systemic risk” to the global financial system. Many authorities, however, still have concerns about the retail exposure to cryptocurrencies, especially by firms promoting opportunities for consumers to speculate.

**Q4: Do you see any reasons why this initiative may be counterproductive to the outcomes it is seeking to achieve?**

This initiative could be counterproductive if there is an expectation or requirement that (early stage) firms have senior full-time staffing (for example, SMR, MIC, ED, RO) in every jurisdiction where cross-border trials will occur. In such case likely only incumbent financial institutions will have the manpower to participate in the tests, crowding out start-ups.

**Q5: Do you believe the issue of developing a best practice for regulators when assessing financial innovation should be a priority for the network? If not, what other priorities should the network first address?**

A5: Establishing best practices for more mature areas of FinTech, where precedent has been established, and successful best practices are sought to be replicated should be a priority consideration.

It is the leading edge of innovation, however, with new business models and emerging technologies such as blockchain and distributed ledger technology, along with new digital assets that should have the relative priority of focus. These are the areas least understood by the whole of the community, both in the context of “utility” of application served to economy and consumer, and regulation, and often offer the promise of significant commercial and social impact.

**Q6: Do you agree with the approach to involve global standard setting bodies as part of the GFIN? How else would you like to see these organisations involved?**

A6: We would encourage the GFIN to work with organisations such as GDF, where in our capacity as a convener of the global digital assets sector, we have convened over 200 firms to develop a Code of Conduct and Taxonomy for crypto assets covering the overarching sector, issuers, platforms, custodians, and funds.

This programme has been running for over one year now, and was formally initiated with the sector in February 2018, at a global mini-summit attended by observers from the FCA, HMT, BoE, the SEC and the OECD.

The Code of Conduct and Taxonomy were developed in concert with the community in Q2 2018 and made available to global public consultation in July and August 2018 – they will be released in Q4 2018.

The overall objective of the programme is to increase the professional standards of the sector through firms' adoption of the code.

We have convened industry to best understand the most effective ways to enable firms to register that they comply with the code, and this is currently work in progress, with a solution target date of 1 January 2019.

In emerging areas, such as digital assets, we would encourage the GFIN to consider formal programme partnerships, and cooperation on industry registration and certification schemes that can be integrated into jurisdictional plans.

### **Q7: What kind of outcomes from the policy work and regulatory trials would your organisation benefit from?**

A7: GDF believe it critical that outcome form the policy work and regulatory trials are linked to the key measures (of success) that we outlined in our response to Question 1, with a focus on licencing firms who demonstrate strong economic and social benefits.

A practical example(s) of how policy work might be applied in a working collaboration between GDF and the GFIN can be illustrated through a sample of our track record in working with industry and regulators / NGOs in the past 6 months on new and emerging policy and regulation, for which we see a large number of benefits for all collaborators:

- Partnering on policy work to develop global and regional codes of conduct and taxonomy in concert with industry: GDF has had over 30 regulators and NGOs participate as observers in our mini-summit agendas on Code of Conduct and Taxonomy development
- Regularly conduct cryptoasset outreach work regulators and NGOs at their request
- Supported the OECD in their inaugural Digital Asset Conference in May 2018 by bringing globally respected industry participants and sponsors to the event – many of whom had speaking opportunities

- Surveyed our global community to deliver the industry view of priorities for the UK Crypto Panel as it relates policy and regulation priorities
- GDF Advisory Council written statement and community survey input to the 2018 FATF 40 Recommendations vis a vis Crypto
- Met requests for speaking and panel participation in a number of global forums including World Government Summit, OECD Digital and Blockchain Summits, IMF Week, UN General Assembly, and a range of commercial conference dedicated to Blockchain and Crypto assets such as Consensus and Blockchain Live.

We would encourage the GFIN to consider using community convenors such as GDF to pull together heterogeneous segments of the sector to participate in regulatory trials. For example, in the emerging area of policy as it relates to cryptocurrency exchanges, custodians, or stablecoins, GDF can be used to mobilise a quorum of firms to participate in regulatory trials, effectively creating a broader sample of (global) participation, knowledge and scale in trial activities.

**Q8: Would the cross-border trials be of interest to your organisation? If so, could you provide any potential example use cases?**

A8: GDF believes that cross border trials offer an acceleration tool to best harmonise different regulatory approaches to industry sub-segments and this aspect of the GFIN programme should be a top priority to help narrow future regulatory divergence.

Potential industry sub-segment candidates are:

- ICO platforms
- Crypto exchanges
- Crypto funds
- Crypto custodians
- Regtech firms (incl AML, CDD, Digital identity, surveillance etc.)

**Q9: Do you agree with the proposed approach to managing the application process for cross-border trials?**

A9: Our understanding of the proposed approach to managing the application process is that firms applying must meet the prerequisites for entry into a global sandbox. We



believe that points 49 to 57 of the Consultation document represent a good starting point as a “blueprint” for the application process.

This is typically an area we would seek to engage the community both interested and “qualified” to meet these prerequisites in either a sprint / roundtable or through a survey. We would ask the GFIN, depending on the volume and depth of industry feedback received during this Consultation, to consider working with GDF to construct an industry sprint / survey to better qualify industry input around the GFIN prerequisites at the earliest opportunity.

There are however at this juncture, a number of over-arching principles GDF believe the GFIN should consider in the application process:

1. Should be more focussed on outcomes. For Fintechs the key targeted outcome of sandbox participation is typically to become licensed (Q7). For Regtechs key desired outcomes could be visibility (including through Sprints), receiving regulatory input and - if achievable - regulatory endorsement.
2. Should have clear timelines, for example length of time expected for the evaluation of the application and anticipated length of time (minimum/ maximum) in sandbox.
3. Should allow the sandbox applicant to select the regulators it wishes to work with, as not all markets may be of interest to it/ it may not have sufficient resources to trial in all markets.
4. Should not require the participant to have senior full-time staffing in each test location as this would exclude many start ups from participating and may thereby become counterproductive (51).
5. Ideally the questions from the participating regulators are pooled as otherwise the process may be overly cumbersome for a start-up (56).
6. Ideally the entry process is on a rolling basis rather than batch-based, as a batch-based process may prompt firms to act fast and apply while they are not yet ready.
7. In some instances the names of entrants may not be required to be publicised as it may lead to unintended outcomes whereby firms apply mainly for publicity even though they are less ready than certain other firms in their ecosystem.

8. Graduation from the sandbox could be announced in case there is a definite outcome as set out in 1 above.

**Q10: [For regulators] Do you anticipate any challenges with the proposed approach to managing the application process, or conducting crossborder trials?**

A10: As GDF is not a regulator we have not answered this question.

## Contributors to this response

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