European Securities and Markets Authority

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Closing remarks

3rd ESMA Financial Innovation Day – Paris

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Let me first start by thanking our speakers for the insightful and thought provoking views that they have shared with us today. Actively engaging with stakeholders - financial experts, market practitioners and investors - is instrumental to our work as a regulator. Events like this one are particularly important to broaden our 'financial innovation network' and help us monitor financial innovation.

When I look back at our first Financial Innovation Day three years ago, I measure the shift both in terms of the type of topics and the attitude of regulators towards innovation. What strikes me first is the acceleration in the pace of financial innovation that we are witnessing. Like they did in certain other sectors over 20 years ago, new technologies are transforming financial services, with potentially disruptive effects. With transformation come challenges but opportunities as well: opportunities for firms to compete in a more open environment, opportunities for customers to receive better services and ultimately potential for sustainable economic growth. Yet, transformation also requires deliberate efforts and choices.

This brings me to my second point about regulators' attitude towards innovation. In the wake of the financial crisis, regulators were rightly concerned about toxic financial innovation. Yet, regulators realise the potential benefits of good innovation. This is obvious when considering the various initiatives implemented by national regulators to support innovation in their jurisdiction. These include the set-up of innovation hubs to help firms understand the rules that may apply to them or regulatory sandboxes that allow the testing of new products or services, with or without any ‘regulatory relief’. Nonetheless, these measures do not deter regulators from their goal to protect investors and to guard against risks to orderly markets and financial stability.

When looking at the recent wave of FinTech innovations, we realise that the existing regulatory framework was not necessarily designed with these innovations in mind. This is why we need to take a close look at the functions of these innovations, their potential risks and benefits and how they map within the existing regulatory framework. Only then can we determine whether there are gaps or impediments in the current rules that need to be addressed. When a given innovation matures, we face something of a regulatory balancing act. We do not want to act too quickly, at the risk of stifling an innovation that may prove beneficial. At the same time, we cannot wait until the risks have materialised and threaten protection of investors or jeopardise financial stability and market integrity. Another important consideration is the need to support a level-playing field for all firms, innovators and established players. Those questions and how to correctly observe the regulatory tipping point between ‘too small to care’ and ‘too large to ignore’ were at the core of our first panel discussion.

Another point that I would like to make is that of two distinguishing features of the current wave of innovations, namely the extensive use of technology and the capacity to easily straddle borders, which create specific challenges for regulators. Sophisticated technologies require regulators to build technology savvy teams and to adapt their supervisory techniques. The global nature of these innovations calls for increased cooperation between European and international regulators. Big Data, Artificial Intelligence and DLT are good examples of these new cross-border innovations.

Our second panel examined how Big Data and AI are used in different ways by financial market participants and discussed how these tools may lead to some important changes across the financial sector and beyond. We heard how systematic funds are now using machine learning techniques as a new approach to complement their existing toolkit, and how Big Data is shaping how financial markets operate. For regulators, a topic within this theme that is especially close to home is RegTech, which we expect to see firms engage with more and more in the coming years. We will have to keep up to speed with fast-developing automated tools, consider how they interact with regulations and think about what they mean for our supervision work.

Our third panel considered how DLT could make our financial market infrastructure more efficient and secure, if a number of conditions are met. The ‘if’ is important here, as we have seen in our discussion today. Indeed, we are still unclear as to whether DLT has the capacity to address a number of important challenges, both technical and non-technical. There is no doubt that the application of DLT to securities markets will be a long journey. And the realized benefits may be more limited than anticipated. Our recent DLT report is an important step to understand the technology and the potential frictions with the existing regulatory framework. We are looking forward to DLT-designers and the industry to come up with compelling business cases to help frame the discussion on the potential need for a regulatory action.

We finished the day with a discussion on how Fintech, and in particular automated advice, could improve the quality and availability of advice and the engagement of investors through techniques such as gamification. We exchanged views on potentialities and limits of this new phenomenon and how automated advice may impact retail investors. We also discussed the differences across the two sides of the Atlantic, the market being less developed in Europe than in the US and the reasons for such a difference. Finally, we tackled the regulatory aspects and tried to understand to what extent regulators and supervisors should react to this new form of business and what are the challenges for them in supervising this activity.

I hope that we have provided you today with an insight into the way that ESMA approach financial innovation with the aim of having a balanced view that is both protective to investors and markets and at the same time supportive when we feel that there are potential benefits.

Finally, I would like to thank you the audience for your attendance and sharing your insights.