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Bank for International Settlements
Centralbahnplatz 2
4051 Basel
Switzerland

Basel Committee on Banking Supervision (BCBS), Consultative Document:
"Sound Practices: Implications of fintech developments for banks and bank supervisors"

Dear Sir/Madam,

The CVA on behalf of its members *appreciates* the opportunity to comment on the captioned Consultative Document and particularly on its ten observations / recommendations, and *commends* the BCBS for the open dialogue and the forward-looking stance in this space.

The CVA is *not* a bank or a financial services organisation. It is an association pursuing the mission to promote *sound* crypto, blockchain, distributed ledger technologies, ventures and token launches in the ecosystem around the Swiss city of Zug, and to foster *responsible* practices globally.

The *interest* of the CVA in commenting on the consultative document arises from two considerations:

- The *impact* that blockchain technology and fintech more broadly is having on banking: The majority of blockchain use cases at this juncture relates to banking and financial services, and the technology has the genuine potential to ease the transfer of (digital or digitally represented) assets while minimising fraud and conduct risks, improving reconciliation processes, transparency and traceability, and facilitating regulatory compliance and supervision; the broader fintech momentum is transforming the business model of banks in many areas such as payment services, customer relationships, handling of transactions, lending procedures, trading systems and backoffice operations, and is challenging (but also presenting opportunities to) regulators and supervisors in the fulfillment of their mandate.

- The *need* to regulate and supervise fintech activities *wisely* to fully unlock their potential and harvest their benefits in terms of financial innovation and enhanced financial inclusion in a risk-managed environment, and the belief that this is better achieved by actively participating in the regulatory discussion and making sure the fintech perspective is voiced and factored in. The authorities have generally been fostering an environment supportive of fintech (sandboxes, accelerators) and have focused supervision on the intersection between fintech activities and the regulatory perimeter. It is important that fintechs (associations) communicate their views as *part* of the regulatory process, to contribute to well-calibrated regulatory responses and an effective management of the regulatory perimeter.

The CVA is broadly *supportive* of the comprehensive analysis and related observations and recommendations put forward by the BCBS in the Consultation Document, and offers the following comments for *consideration*.

Impact of fintech on banks' model

BCBS' observation 1 deals with the impact of fintech on the business model of banks, anticipating significant change and increasing partnering with and / or outsourcing to third-party service providers. The BCBS recommends banks and their supervisors to balance the need to ensure the safety and soundness of the banking system with minimising the risk of inhibiting innovation in the financial sector.

- The CVA agrees that fintech is evolving the operating model of banks towards new forms of interconnectedness with, and dependencies on, third party service providers. Banks will join networks of fintechs as part of larger ecosystems, in a partnership of interests, and will also become themselves innovators on a continuous basis.
- The CVA believes that regulators and supervisors need to monitor and assist critically but constructively the business model changing process at banks, ensuring that potential revenue losses and the cooperation with fintechs or the integration of fintech solutions do not lower risk management standards, and that the changing culture towards continuous innovation and open architecture is managed in a way that avoids instabilities. Furthermore, due care should be given to adequate disclosure and to the administration of watertight legal structure components, continuing the regulatory and supervisory practice initiated to combat TBTF and systemic issues more broadly.
- The CVA thinks that fintechs should be supported and incentivised to develop irreproachable governance models and act upon them, and that they should be integrated in the monitoring and informal regulatory consultation process on an ongoing basis. As a case in point, the CVA is defining a policy framework for its ecosystem that aligns the conduct of the members to protect the reputation of the Crypto Valley, support its growth and the diffusion through it of beneficial innovations, and is proactively engaging with regulators - focusing in particular on regulatory gaps. In a fast-moving environment that blurs the comparatively rather sluggish regulatory perimeter, this is a way to contribute to the generation of the overall intended outcome.
- The CVA warns against ill-conceived and ill-administered sanctions, unpredictable and one-size-fits all reactions, and enduring regulatory uncertainty in the fintech space - as such an environment would materially inhibit sound innovation in financial services.

Impact of fintech on banking risks

BCBS' observations 2, 3 and 4 deal with the key risks for banks associated with the emergence of fintech and related impact on the business model. The BCBS recommends banks to ensure that they have effective governance structures and risk management processes in place to face the risks brought about by fintech developments, including IT risks and outsourcing risks.

- The CVA believes that beyond the impact on the operating model, fintech challenges the IT, HR and risk management approach of banks.
    - Banks will incur in significant costs to establish open source frameworks in partnership with and / or outsourcing to fintech while ensuring uncompromised performance and security of the technological environment. These costs follow expensive regulatory reform-related compliance projects and generally perceived enduring depressed margins. Supervisors should focus on the development of the IT frameworks and verify that it unfolds without compromising the performance and security of the technological environment.
    - To evolve their business models, banks will increasingly substitute branch personnel, retail client advisors, traders and back office operation personnel with talents in the areas of artificial intelligence, data analytics, cybersecurity and distributed ledger technologies. Supervisors should ensure that banks shape the HR basis of the future by operating sound internal educational and talent promotion / acquisition programs, mitigating negative spillovers from the cultural change triggered by the advent of fintech, and maintaining an uncompromised workforce conduct.
    - Fintech impacts incrementally operational-type of risks at banks - such as cyberrisk, third party reliance risk, legal/regulatory risks -, ‘new business initiatives’ processes and the interplay between the three lines of defense (risk management, control and internal audit). Supervisors should ensure that the shift in focus from traditional financial risks to incrementally operational-type of risks does not compromise the rigor and quality of the management of traditional risks, that the typical sequential way in which the three lines of defense operate (characterised by important time-lags, in particular) evolves towards a more 'time-to-market' approach, and that new business initiatives procedures are well visible and considered at the highest executive level.
- The CVA thinks that regulators could materially contribute to an effective development, adoption and use by banks of fintech technologies. In particular, supervisors should consider taking the lead in validating and setting requirements for regtech applications. These applications can provide banks with more effective ways to improve their compliance and risk management activities such as streamlining KYC processes, conducting effective due diligence, monitoring transactions and detecting suspicious activities, meeting AML and terrorist financing requirements and automating regulatory reporting.
- The CVA notes that regulators should actively work with fintechs and the financial industry to create regulatory certainty for applications such as blockchains. The absence of legal certainty on issues including the enforceability of smart contracts, the validity of digital signatures, the legal status of digital data (property rights), the legal validity of financial instruments issued in the blockchain and the designation of a coin as a security or not, is a major inhibitor of innovation and adoption, and a major risk factor, in this space. This is regrettable for the improved regulatory compliance, supervision, transparency, auditability and fraud prevention that blockchains are poised to allow.

Impact of fintech on regulators and supervision

BCBS' observations 5 to 10 highlight the holistic nature of the public policy issues raised by fintech, which may concern authorities dealing with data privacy, consumer protection and competition, the cross-border nature of fintech firms and their products - including the potential creation of regulatory gaps - and the need to re-assess the current supervisory model in the face of technologically-driven financial services deliveries. The BCBS calls for cooperation (including at the international level) between bank supervisors and other relevant public authorities and recommends bank supervisors to review current staffing and training models to make sure the required skills and expertise are available.

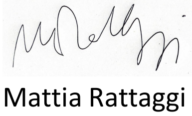
- Fintech transforms the delivery of financial services, blurs the traditional regulatory perimeter and scope, and creates the potential for regulatory gaps, uncertainties and divergences, which negatively affect the diffusion of beneficial fintech innovations. The CVA fully supports effective cooperation (including at the international level) between the relevant authorities and is convinced that there is a genuine need for it in order to harvest the benefits of fintech in a risk-controlled environment. Fintechs (associations) should be leveraged in this regulatory process as appropriate.

- The CVA believes that banks and supervisors are jointly affected by a great deal of the transformation being triggered by fintech. The supervisors share with banks the HR challenge to actively shape the HR base of the future by developing or / and hiring talents in the areas of artificial intelligence, data analytics, cybersecurity and distributed ledger technologies, and mitigate negative cultural spillovers from the change triggered by the advent of fintech that could affect the effectiveness of these agencies. Similarly, supervisory agencies may consider establishing open source frameworks in partnership with fintechs to step up and automate supervisory tools, and develop their environments to allow real-time and independent supervision - joining relevant blockchains that banks may operate internally - as relevant and appropriate.

We hope that you will find our comments helpful in the attempt to promote in an effective manner the safety and soundness of banks, systemic stability, market integrity, customers and investors protection in the fintech financial age.

Please do not hesitate to contact Dr. Mattia L. Rattaggi (info@cryptovalley.swiss; +41 79 249 9227) if you have any comments on any of the issues raised in this contribution.

Yours sincerely,



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