ABU DHABI GLOBAL MARKET
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ADGM comments – Basel Committee on Banking Supervision consultative document "*Sound Practices: implications of Fintech developments for banks and bank supervisors*"

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Abu Dhabi Global Market (ADGM) welcomes the opportunity to comment to the Basel Committee on Banking Supervision consultative document "Sound Practices: implications of Fintech developments for banks and bank supervisors".

ADGM is the newest financial center established in the Middle East and Africa (MENA) region under the mandate of the Abu Dhabi Government. Since going live on 21st October 2015, much has been achieved, the fastest pace of new funds creation in the region in its first year of operations and the first FinTech hub of the MENA region.

ADGM is the first jurisdiction in the MENA region to license FinTech participants and to launch a Regulatory Laboratory ("RegLab", our regulatory sandbox initiative) which provides a safe and closely-supervised environment to support FinTech players to innovate and test new products and services.

We have set out our comments below, focusing on four areas of particular interest:

1. Coordination of the FinTech Agenda - including MENA region
2. Strengthening the FinTech ecosystem
3. Evolution of data management
4. Systemic importance of "BigTech" firms

Key comments:

1. Coordination of the FinTech Agenda - including MENA region

ADGM comment: The report is a comprehensive and helpful summary of activities in established markets. However, given the rapid growth and increasing impact of MENA markets in particular, they may merit more attention.

The attention being shown to the FinTech agenda at the Basel Committee is welcome and helpful. ADGM appreciates the willingness to explore new solutions to existing problems and consider how technology can change the nature of finance for the benefit of consumers and markets.

In the last 24 months, multiple regulators in the MENA region have established teams and initiatives to assess, supervise and in some cases promote innovation in their markets. Like the growth of any modern market, the Fintech market has a global footprint. As the Basel Committee and other forums have identified, FinTech activities have the ability to operate across jurisdictions and many of the companies investing in such technology are subject to more than one legal and regulatory regime.

New regulatory and supervisory frameworks which directly affect innovative products in a region should strive to be harmonious with other regions' frameworks in order to mitigate the risk of conflicting rule sets. Where conflicting frameworks exist, this may lead to regulatory arbitrage, hinder useful innovation and ultimately create instability in the market and risk for consumers.

2. Strengthening the FinTech ecosystem

ADGM comment: A one-size-fits-all regulatory approach is not conducive to technological innovation. Any regulatory framework should be flexible, graduated and principles-based, with oversight tied to scale and the risks presented. Regulators and supervisors must be prepared to develop new expertise and engage both banks and non-banks in order to understand the fast moving changes happening in the technology market.

The consultative document rightly identifies that incumbent banks have adopted some advantages of FinTech quickly. However, banks can typically only change surface-level technology. The core banking systems underpinning their primary activities are often decades-old which most banks have not demonstrated appetite to replace. Given that many of the world's globally and systemically important financial institutions built their core systems at similar times, there is a risk that the entire financial services industry is rapidly approaching a point where each institution's technology is no longer fit for purpose.

While there are good reasons for banks to rely on internal IT departments, there is also considerable potential to create value— both for themselves and the economy at large — and mitigate technology risk by nurturing an ecosystem of startups and technology innovators that can assist banks in developing shared platforms that increase the resilience and cost effectiveness of banking and payment systems.

3. Evolution of data management

ADGM comment: We encourage the Basel Committee to focus on providing the right conditions to enable financial institutions to continue to serve their markets in the best and safest possible way by developing data technologies.

As the financial institutions' datasets grow exponentially, so too does the challenge to adequately collect, store, secure and analyze this data. We support the idea of exploring issues and opportunities around data management and would encourage further research into new paradigms and potential risks for financial institutions. Banks and other financial institutions have long been custodians and users of data and we believe that the risks arising from the use of data are both foreseeable and manageable.

However, to date, financial institutions have been slow to adopt newer data management technologies to use the data they have to their fullest potential and secure it using the best available means.This is due to many potential reasons: legacy architecture and the unwillingness of customers to share the details of their finances with third parties, for example. Those barriers to more effective and safer management of customer data require careful consideration to assess whether further guidance from Basel may be needed.

4. Systemic importance of "BigTech" firms

ADGM comment: A fundamental review of cloud services and outsourcing is necessary to adjust for the new opportunities and risks of the FinTech world.

The systemic importance of the "BigTech" firms (Amazon, Google, and Microsoft) may be underestimated - over 60% of the UK cloud services market in financial services is with Amazon – this could lead to a single point of failure. A resilient approach to outsourcing regulation which enables cloud computing will be key to foster robust and safe innovation.