

FINTECH R/EVOLUTION AND DIFC

Regulation and Innovation Testing

Peter Smith - Managing Director , Policy & Strategy

Introduction: The Age of Tech – 2006 to 2016

The Age of Tech

Market capitalization of the world's most valuable public companies

■ Tech
 ■ Oil/Energy
 ■ Financial Services
 ■ Conglomerate



Context: UAE and Dubai Innovation Initiatives

THE NATIONAL STRATEGY FOR INNOVATION

Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, launched a National Innovation Strategy on October 2014 with the aim of making the UAE one of the most innovative nations in the world within seven years.

Sheikh Mohammed bin Rashid opens Area 2071 technology hub

مسرعات دبي المستقبل

DUBAI FUTURE ACCELERATORS

The DIFC Accelerator

FINTECH HIVE
DIFC



DUBAI BLOCKCHAIN STRATEGY

The Dubai Blockchain Strategy, launched by His Highness Sheikh Hamdan, is a result of a collaboration between the Smart Dubai Office and the Dubai Future Foundation to continually explore and evaluate the latest technology innovations that demonstrate an opportunity to deliver more seamless, safe, efficient, and impactful city experiences.

خطة دبي
2021
DUBAI PLAN

Dubai to Abu Dhabi in 12 minutes: It's happening



Why is innovation important?

Robotics



Apps

Sort By: Best-sellers	
4.  Modern Combat 2: Blackout Games Released Oct 04, 2010 \$6.99 BUY	5.  Fruit Ninja Games Updated Sep 28, 2010 \$0.99 BUY
9.  Sonic the Hedgehog 2 Games Updated Jul 30, 2010 \$5.99 BUY	10.  Chuzzle Games Released Jul 24, 2010 \$0.99 BUY
14.  The Moron Test Entertainment Updated Jul 24, 2010 \$0.99 BUY	15.  Bejeweled Games Updated Jul 24, 2010 \$2.99 BUY
19.  Need for Speed Shift Games Updated Jul 08, 2010 \$6.99 BUY	20.  Urban Ninja Games Released Oct 01, 2010 \$0.99 BUY
24.  Osmos Games Updated Aug 20, 2010 \$0.99 BUY	

Self



Photography



CHANGE

FinTech regulation across the globe

As this is a dynamic space, the map is accurate as at time of publication.



Live

- UK FCA
- Canada OSC
- Malaysia Central Bank
- Singapore MAS
- Dutch AFM
- ADGM
- Hong Kong HKMA
- Australia ASIC

DFSA Innovation Testing Licence

Proposed

- Russia Central Bank
- Swiss FINMA
- Thailand Central Bank
- Taiwan FSC
- Indonesia Central Bank
- Norway FSA
- USA Federal Reserve / Treasury / SEC

DFSA FinTech Consultations

Loan-Based Crowdfunding CP109



CONSULTATION PAPER CP109



CROWDFUNDING SME FINANCING THROUGH LENDING

31 January 2017

Investment-Based Crowdfunding CP111



CONSULTATION PAPER CP111



CROWDFUNDING: SME FINANCING THROUGH INVESTING

13 February 2017

Testing Fintech Innovations CP112



CONSULTATION PAPER CP112

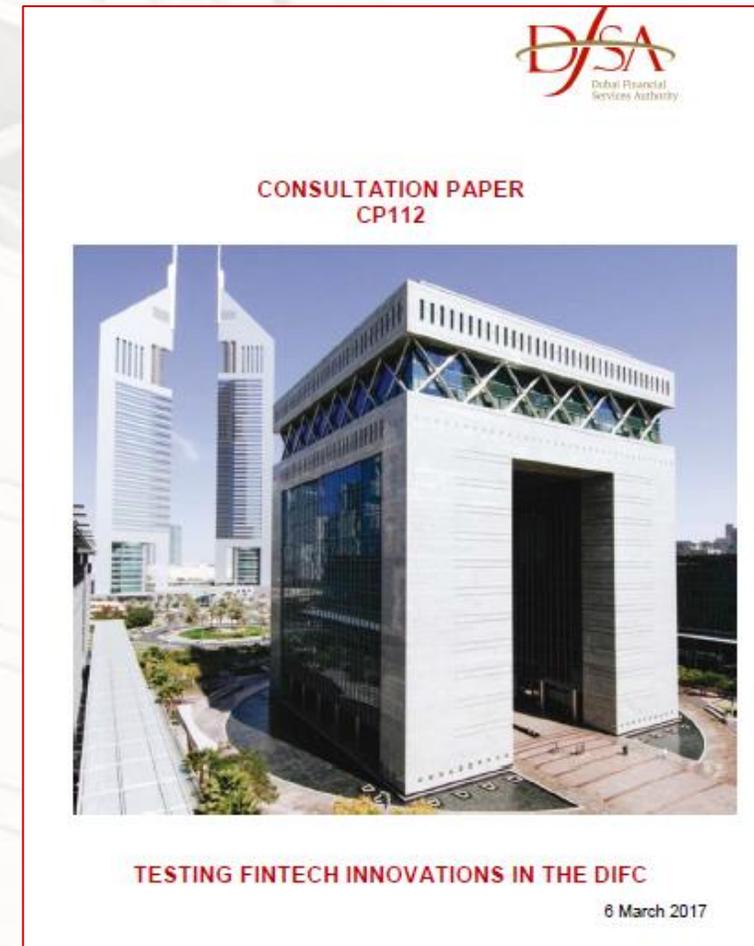


TESTING FINTECH INNOVATIONS IN THE DIFC

8 March 2017

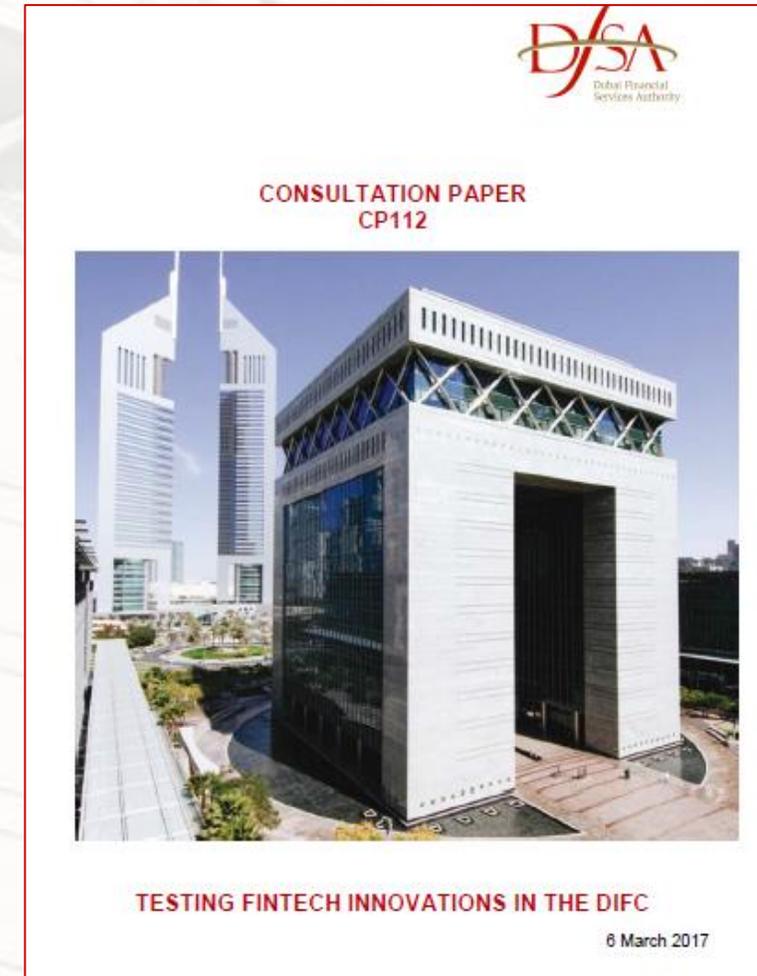
CP 112: Testing FinTech Innovations in the DIFC

- DFSA welcomes early engagement
 - **Open Door, Open Mind**
- Innovation in financial services business propositions, models, products or services
- Testing as a step towards 'full' regulation
- Existing DFSA regime is flexible
- No need for new rules; guidance published
- Not all Innovation or all FinTech needs to be regulated



CP 112: FinTech Possibilities

1. Improves interaction between financial services firms and customers, including bringing new players into the financial services arena
2. Improves the efficiency, structure and competitiveness of markets (including value chains)
3. Makes new financial services products available
4. Improves risk management by financial services firms
5. Reduces both the risks and the costs of many financial services back office processes
6. Improves efficiency and security in the provision of financial services



CP 112: ITL Qualifying Criteria

1. The Innovation will involve the use of financial technology
2. The Innovation will involve an activity that, if conducted in or from the DIFC, will be the carrying out of one or more financial services regulated by the DFSA
3. The development of the Innovation must have reached the stage where it is needs testing under regulatory oversight.
4. The firm must intend to implement its Innovation (business proposition, model, service or product) more widely, in or from the DIFC.

**CONSULTATION PAPER
CP112**



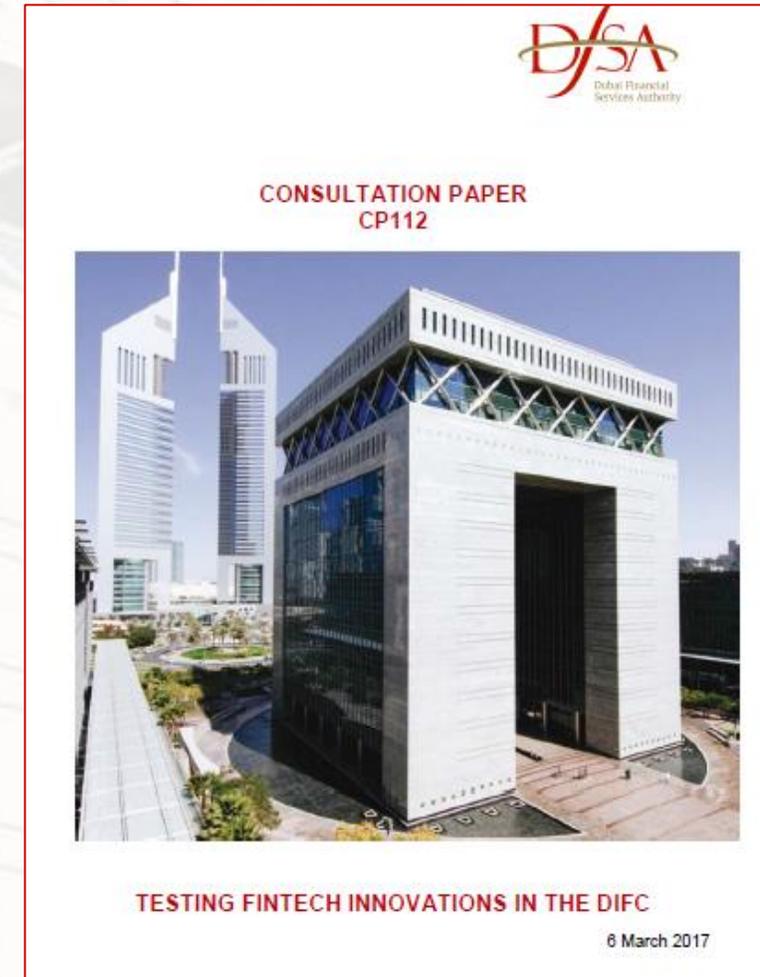
TESTING FINTECH INNOVATIONS IN THE DIFC

8 March 2017

CP 112: DFSA ITL Expectations

In the Context of the Regulatory Test Plan:

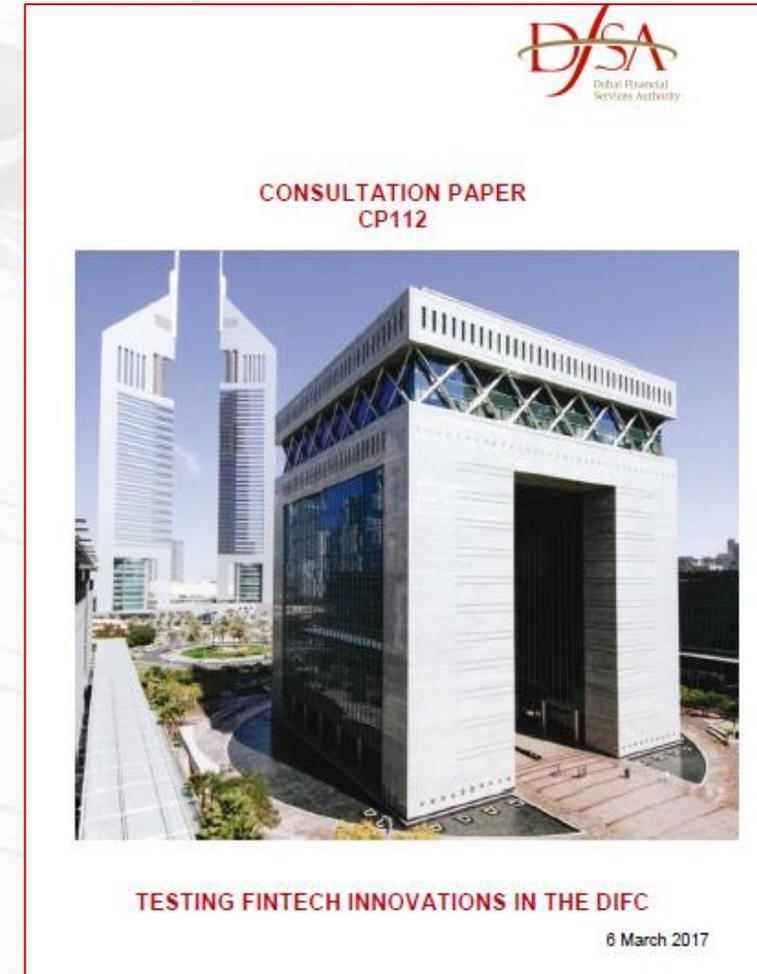
1. Fitness and Propriety of the Applicant
2. Act with integrity
3. Act with due skill, care and diligence
4. Communicate information to customers in a way that is fair, clear and not misleading
5. Open and co-operative with the DFSA
6. Located in the DIFC
7. Complying with all UAE Federal Law prohibitions
8. Include prominently on all its communications that it is 'Regulated by the DFSA for Innovation Testing only'



CP 112: RTP elements

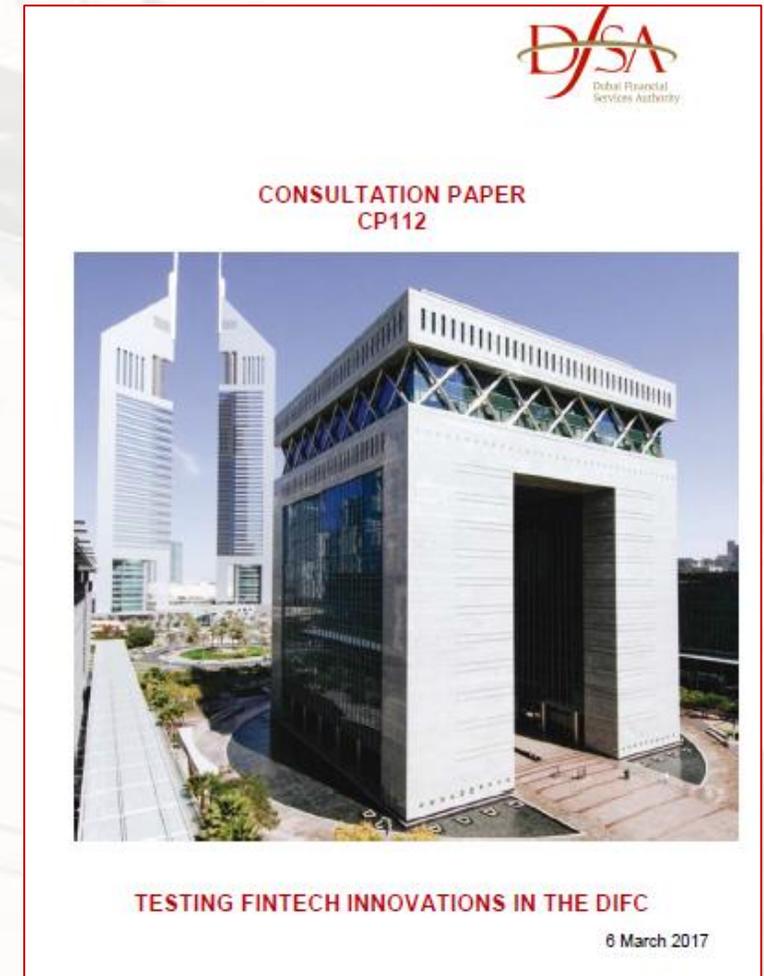
1. Limiting number and type of customers involved in the testing
2. Defined timeline for testing, including clear milestones and measurable success criteria
3. How customers (and other key market stakeholders) will understand the nature of the testing and its risks
4. Safeguards to ensure customers, etc., are adequately protected in the event of testing challenges.
5. Exit strategy for an orderly wind-down if testing is not successful

Note: DFSA will publish the waivers and modifications that apply to the firm's activities during this testing phase

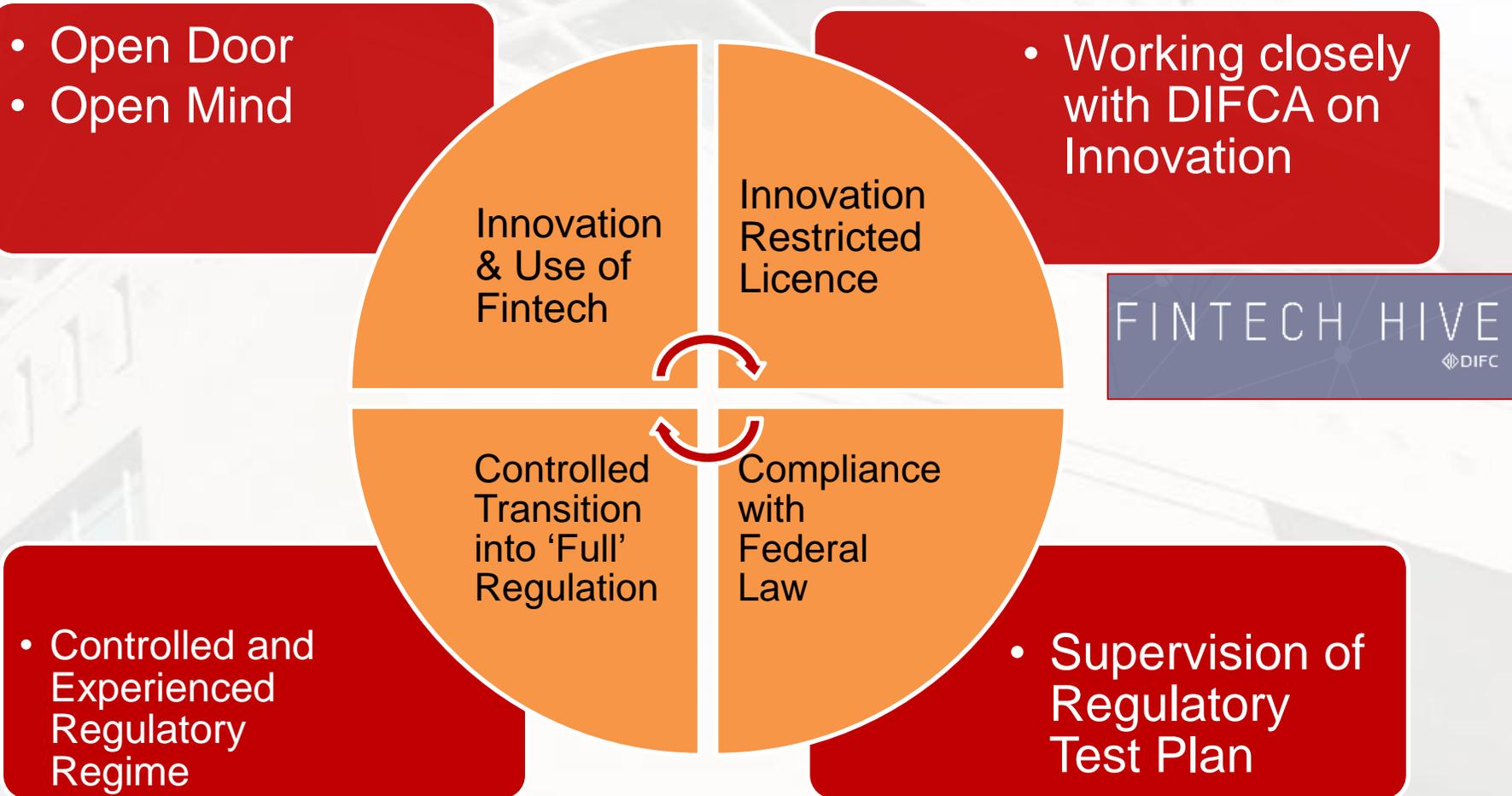


CP 112: Other key points

1. Testing will be for 6 to 12 months (in exceptional circumstances it may be extended to 2 years)
2. \$5000 per annum - no other regulatory fees during testing
3. Reporting during testing will be tailored to the Regulatory Test Plan
4. Following successful testing and move to unrestricted licence:
 1. consideration will be given to temporary waivers, etc., that may be necessary as part of move to eventual 'full' regulation under the DFSA Rulebook; and
 2. usual regulatory fees will apply



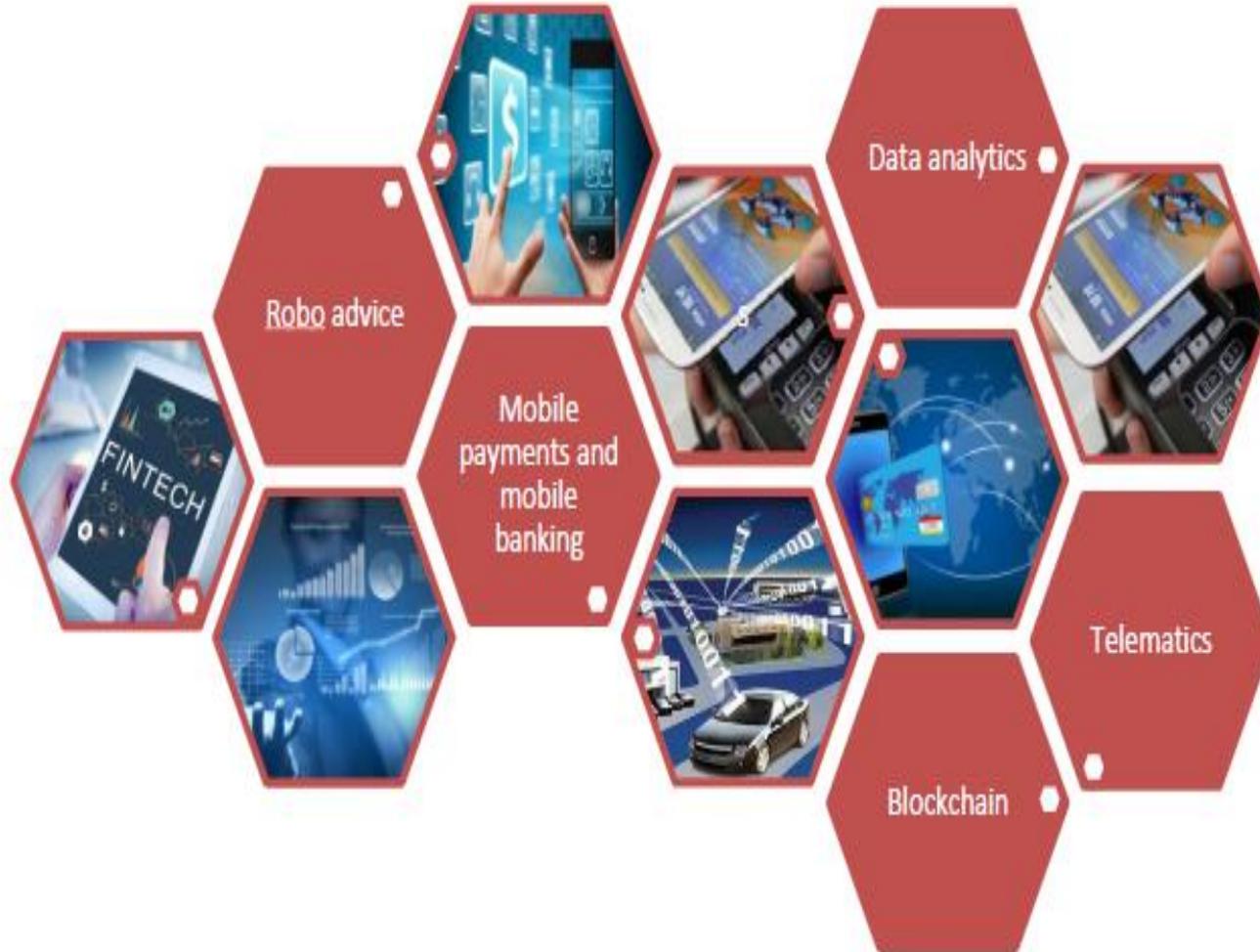
Our approach to innovation



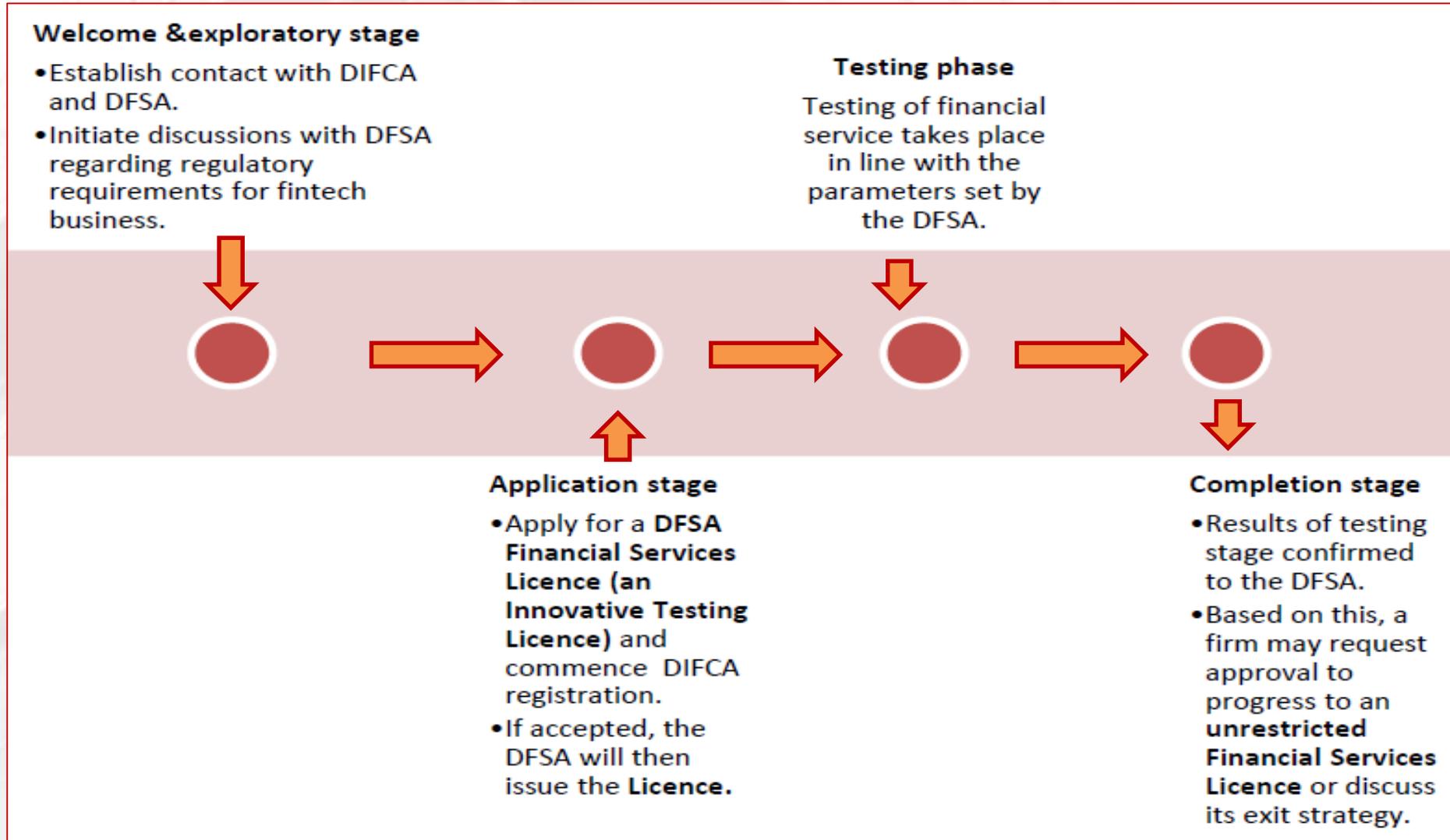
CP112: Innovation and FinTech

Examples of Recent Innovation Discussions

1. Crowdfunding
2. Cryptocurrencies
3. Robo-advice
4. Distributed Ledger Technology (using Blockchain)
5. E-Identity / KYC / CDD



CP112: ITL process



THE DFSA AND INNOVATION & FINANCIAL TECHNOLOGY

- The DFSA recognises the importance of innovation & technology to support and enable financial services business models, products and services.
- Financial Technology, or Fintech, can enhance and improve the efficiency of markets and provide better services and solutions.
- On this basis, the DFSA will allow firms to apply for a restricted class of financial services licence which we refer to as an **Innovation Testing Licence (ITL)**.
- The ITL will encourage Fintech firms to test new products, services and business models whilst only complying with Rules appropriate for testing.

→ WHAT IS THE OBJECTIVE OF THE DFSA'S ITL?

→ WHAT ARE THE ELIGIBILITY CRITERIA?

→ WHAT ARE THE AUTHORISATION REQUIREMENTS?

→ WHAT RULES WILL APPLY?

→ WILL THERE BE ANY RESTRICTIONS?

→ HOW LONG IS THE TESTING PERIOD?

→ WHAT HAPPENS AT THE END OF THE TEST PERIOD?



Thank You