7th Meeting of the FinTech Working Group
16 June 2021, 17:00-19:00 (Brussels time, WebEx)
Chair MEP Stasys Jakeliūnas

Big Techs in Finance: Opportunities, Risks and Supervisory Challenges

Participants: *Fernando Restoy (BIS), José Manuel Campa (EBA), Tobias Adrian (IMF), Stasys Jakeliūnas (EP), Eero Heinäluoma (EP), Sven Giegold (EP) and Paul Tang (EP)*

Draft minutes

The seventh meeting of the FinTech Working Group kicked off with the welcome word and introductory statements by the **MEP Stasys Jakeliūnas**, Chair of the FinTech Working group. Mr **Jakeliūnas** touched upon some of the aspects of the BigTech in finance, including features of BigTechs and some important trade-offs to be considered.

Fernando Restoy, Chairperson of the Financial Stability Institute (FSI) at the BIS, started his intervention with the presentation of the Bank for International Settlements (BIS) publications "Fintech regulation: how to achieve a level playing field" and "Big techs in finance: regulatory approaches and policy options". In his intervention, Mr Restoy focused on the DNA business model used (**D**ata analytics, **N**etwork externalities and interwoven **A**ctivities) by BigTechs and their ability to quickly scale up in market segments that are outside their core business. He outlined the importance of revising the current regulatory framework to accommodate FinTechs and BigTechs, ensuring at the same time a level playing field, financial stability, consumer protection and fair competition. Besides the relevance of the "same activity, same rules" principle, and in order to address the different nature and risks of BigTech in this sector, an entity-based financial regulatory framework would be justified in certain cases.

José Manuel Campa, Chairperson of the European Banking Authority (EBA), underlined also the current different roles and importance of the BigTechs in the EU financial sector in comparison with other non-financial sectors and world regions. These dissimilarities could be explained, for instance, due to the degree of saturation of the financial markets and other social-demographic characteristics. On the other hand, he pointed out that the BigTechs have potential to become dominant in the financial services. In this respect, open banking is a key issue as data sharing asymmetries arise. Mr Campa reiterated the importance of the "same activity, same rules" principle but, due to the different level of risks that same activities could bring, depending on the entities that carry them out, he agrees that an entity-based approach should be considered.

Tobias Adrian, Financial Counsellor and Director of the Monetary and Capital Markets Department at the International Monetary Fund (IMF), complemented previous speakers' interventions highlighting the impact that the BigTechs firms can have in the financial sector due to their predominant positions in other non-financial-related areas. Hence, based on the widespread use of a non-financial products and network effects, they can capture large part of the financial services. He mentioned that BigTechs might affect financial stability in three ways: by scaling-up fast, due to significant interlinkages and because of extensive use of cloud services. He also stressed the risk of "lock-in". According to him, if BigTechs were identified as "systemic," home supervisors would need to follow an entity-based approach. However, a hybrid-type approach should be the best solution for regulating BigTechs. Mr Adrian pointed out the importance of the cross-border aspects of the BigTechs and the need for international co-operation in their regulation. Finally, he concluded that if these regulatory concerns are addressed in a flexible and realistic manner both in the short and long-term, an effective, evolving approach to regulation and supervision could be achieved.

During the Q&A session, **MEP Eero Heinäluoma**, Member of the FinTech Working Group, enquired guest speakers about the possibility of a further international cooperation regarding BigTech regulation, in particular between the EU and the US. The three speakers agreed on the need of such a cooperation. However, Mr Restoy considered that there are currently many obstacles for that, for instance due to the different understandings of risks and the no-equal presence of BigTechs in the financial sectors across jurisdictions. Mr Campa added that in some areas, such as operational resilience, the degree of convergence between jurisdictions is higher than in others fields, for instance in relation to cloud services. Mr Adrian added that special consideration should be given to any measure that the US takes in this regard because most of the existing BigTechs are based in their territory. In addition, it should be considered that BigTechs adjust their activities in the financial sector according to the level of supervision by financial authorities.

Mr Jakeliūnas enquired guest speakers about the Diem project of Facebook and its potential impact on the financial sector. On this topic, Mr Adrian thinks that the shift from Libra to Diem has occurred mostly due to the regulatory concerns. Diem project does not pose a threat to the EU however; it could present a dollarisation risk for some other monetary systems. According to Mr Restoy, the impact of the Diem will depend very much on its scale.

Mr Jakeliūnas addressed speakers about the homogeneity of application of know-your-customer (KYC) requirements; issue that Mr Campa considered very relevant and that will be likely tackled in the upcoming Commission's proposal on anti-money laundering.

Mr Jakeliūnas concluded the exchange of views enquiring guest speakers about the possibility of limiting the entrance of BigTechs in the EU financial sector. Mr Adrian highlighted the numerous benefits that this type of companies brings to the financial markets in terms of innovation, economies of scale, etc. According to him, any barrier in this regard could have a considerable impact on benefits. Mr Restoy agreed on the advantages that the presence of these enterprises brings to consumers according to their role in the financial sector. Other world jurisdictions are introducing rules and further supervision but not banning access to the markets. Mr Campa shared also other speakers' views and outlined the fact that in the EU BigTechs have a higher role as services providers to financial entities rather than as financial entities per se. For this reason, it is key to ensure operational resilience.