SWIFT's response to the European Commission's consultation on "FinTech: A more competitive and innovative European Financial Sector"

[Subject]

SWIFT

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Confidentiality: Public

SWIFT thanks the European Commission for the opportunity to provide comments on the consultation document "FinTech: a more competitive and innovative European financial sector".

SWIFT is a member-owned, cooperative society headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholding Users, comprising more than 3,000 financial institutions. We connect more than 11,000 institutions in more than 200 countries and territories. A fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

If you wish to discuss any aspect of our response please do not hesitate to let us know.

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Section 2: Bringing down operational costs and increasing efficiency for the industry

Q 2.7: Which DLT applications are likely to offer practical and readily applicable opportunities to enhance access to finance for enterprises, notably SMEs?

SWIFT believes that distributed ledger technology (DLT) has the potential to bring efficiencies and new opportunities to the financial industry. The key strengths of DLT are:

- Trust in a disseminated system;
- Efficiency in broadcasting information;
- Complete traceability of transactions;
- Simplified reconciliation; and
- High resiliency.

We believe the reference data space would benefit from the use of DLT as there are little or no confidentiality issues to be considered. Furthermore, DLT's authentication and non-repudiation mechanisms can be used by reference data owners to update their data when required and data users can obtain updates immediately.

Q 2.8: What are the main challenges for the implementation of DLT solutions (e.g. technological challenges, data standardisation and interoperability of DLT systems)?

In SWIFT's position paper[1] we said that, although some solutions have been successfully deployed in proofs of concept, existing DLTs are currently not mature enough to fulfil the requirements of the financial community. In order to be more widely adopted by the financial industry, DLTs should be developed in the following key areas:

Governance: The financial industry will require strict governance models whereby access is controlled; permissions and roles are defined, assigned and enforced; and clear roles and responsibilities are defined in terms of business and technical operations, solution support, evolution and maintenance. The underlying liability and ownership structure must also be clearly defined.

Confidentiality: Depending on the use case, data exchanged via a DLT solution can have varying levels of confidentiality. No standard solutions exist currently. Examples of potential solutions are:

- storing the confidential information off-chain, and only a reference is stored on the chain;
- newer technologies (such as Hyperledger Fabric or Quorum) enable the Smart Contract developer to decide who is involved in a certain transaction (channels) and only copies the data to those parties (selective distribution)

Data Standardisation: Interfacing with DLT solutions typically occurs through calling into smart contracts or addressing assets directly. When ramping up this new technology there will be a

[1] https://www.swift.com/insights/press-releases/swift-and-accenture-outline-path-to-distributed-ledger-technology-adoption-within-financial-services

greater need for interoperability with non-DLT based systems. This is also an area where existing standards, such as ISO 20022, can make the transition smoother.
SWIFT has described eight industry requirements that need to be fulfilled by DLT before it can be widely adopted in critical applications by the financial industry. More information can be found in SWIFT's position paper.

Section 3: Making the single market more competitive by lowering barriers to entry

Q 3.8: How can the Commission or the European Supervisory Authorities best coordinate, complement or combine the various practices and initiatives taken by national authorities in support of FinTech (e.g. innovation hubs, accelerators or sandboxes) and make the EU as a whole a hub for FinTech innovation? Would there be merits in pooling expertise in the ESAs?

Regulatory sandboxes for financial services are currently being applied by a number of national supervisors. We suggest a taskforce that could coordinate and share best practice between the many initiatives would be particularly beneficial to cross-border institutions and would reduce fragmentation. Many different country-specific FinTech sandboxes could also lead to sandbox-arbitrage which should be avoided. Through Innotribe, SWIFT has co-created the Global Fintech Federation which seeks to exchange best practices between various initiatives. More information can be found on www.thegfhf.org .

Q 3.13: In which areas could EU or global level standards facilitate the efficiency and interoperability of FinTech solutions? What would be the most effective and competition-friendly approach to develop these standards?

Specifically in the context of DLT a number of global standards need to be created to address following issues:

Identity.
Unlike for Bitcoin, pseudo-anonymity of participants is not in regulated financial transfer systems which include KYC, anti-fraud and AML requirements. New technologies such as Hyperledger offer clear ownership by integrating with one or more Certification Authorities, instead of relying solely on public/private key pairs.

Smart Contracts.
A clear process of Smart Contract qualification (by a set of trusted third parties), as well as a clear strategy for versioning and release management will be required, specifically as the availability and reliability of production DLT-based systems becomes more widespread. We believe certain principles existing in the ISO 20022 methodology can be used and/or extended to address this issue.

The creation of ISO Technical Committee 307 (TC 307), aiming at standardising Blockchain and Distributed Ledger Technologies, should lead to a more efficient and universal approach in evaluating regulatory aspects by clearly defining the terminology and taxonomy used in this domain, as well as aiming to establish a reference architecture.

The first resolution of TC 307 has led to the creation of 5 Study Groups on

- Reference Architecture, taxonomy and ontology
- Use Cases
- Security and Privacy
- Identity
- Smart Contracts

Furthermore, a complete set of liaisons has been set up to existing technical committees, each specialising in one of the technology standards used in the context of DLT, one of which being the TC68, which created and maintains the ISO 20022 standard for Financial Services.

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