

BY EMAIL: LegislativeReview-ExamenLegislatif@canada.ca

Montreal, November 14, 2016

Financial Institutions Division
Financial Sector Policy Branch
Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa ON K1A 0G5

Re: Review of the Federal Financial Sector Framework – Written comments from FinFusion – FinTech Community

Dear Mesdames, Sirs:

It is with great enthusiasm that we, as members of the Board of Directors of FinFusion, submit the following in response to the Department of Finance's invitation for comments in the context of the Review of the Federal Financial Sector Framework ("Review").

FinFusion is a non-profit organization whose mission is to develop, promote and support the FinTech community in Montreal, Quebec and Canada. Acting as an open, central and independent hub for entrepreneurs, investors, businesses, governmental entities, higher education and research centers, FinFusion also aims to connect FinTechs at an international level. In addition, FinFusion organizes events to encourage interaction between different stakeholders and to build a stronger FinTech ecosystem.

In preparation of this letter, FinFusion solicited and received feedback from about fifteen stakeholders of the Montreal FinTech community. These stakeholders ranged from emerging start-ups to established businesses. The types of services they provide include market lending solutions, money transfer and insurance services, as well as wealth management. From this feedback, FinFusion has noted some recurring issues, and wishes to emphasize the following priorities for the upcoming Review. These issues can be grouped under three main themes: **1- Data Sharing, 2- Licensing and 3- Financing.**

1. Data Sharing: Give Data Access to All Stakeholders

One of the Review's main focuses should be to provide a transparent regulatory framework across Canada's financial industry to promote fair access to data. For FinTechs, this is key. Access to data that is in the possession of third parties like banks, insurers and government

would assist FinTechs in providing Canadian consumers with a much broader variety of financial services and products.

Of course, any access to data would take into consideration applicable privacy laws. Appropriate measures to safeguard individual personal information would also be expected as a condition.

It is currently extremely difficult for FinTechs to obtain their customers' full financial profiles. In the insurance sector for example, the lack of access to data makes it very complicated for customers to understand their own coverage and to migrate to better coverage. A similar problem exists with banking services. Even with valid powers of attorney in hand, FinTechs often see their request to retrieve data information from their customer's accounts at financial institutions denied, or heavily delayed. It should be noted that most FinTechs do not consider themselves as competing with financial institutions. They rather strive to provide consumers with services that are complementary to those provided by financial institutions.

Legislators and regulators should take a firm stance on customer data ownership, and give consumers more flexibility to retrieve their data. This would promote clientele mobility, which in turn ensures freedom of choice of financial services and products for consumers. It also allows for a more diversified financial industry, which is in Canadian consumers' best interests. Data information can of course be highly sensitive and confidential, but there are several ways to make data readily available in a secure way.

Other jurisdictions' initiatives are a useful source of guidance. For instance, regulators in the U.K. and the E.U. have forced established financial institutions to share transactions data with other market stakeholders. These institutions are also obligated to assist newly licensed banking services in their operations. Through regulation, these jurisdictions have allowed for automated data sharing, in a secured and efficient way. After being properly validated and registered, FinTechs can get access to relevant data via electronic platforms. This also reduces costs for customers and creates healthy market competition and diversification.

A potential solution to offer secured data access would be to create a secured shared database for verified data information (e.g. via encryptions protocols and VPN identification). In Canada, thousands of entities use data and perform due diligence of companies and individuals every day. A shared database would mean that all this gathered data information could be shared collectively, saving significant time and resources for all stakeholders. Technology to export data electronically is already available and FinTechs possess the platforms to connect to those technologies. A mitigating alternative would be to have such an instrument for corporations and organizations only (not for individuals), as due diligence is especially burdensome in those cases.

Data sharing is perhaps the most important area where change in legislation and regulation needs to occur, in order to foster growth of FinTechs, and make for a more diversified Canadian financial industry.

2. Licensing: Adapt Requirements and Assist with Compliance

The licensing requirements in Canada are ill-adapted to FinTechs, and the application procedures are unduly complex and inaccessible. As with data sharing, fixing these deficiencies would help create a level playing field for new entrants. This would also foster competition, and offer much needed diversity of financial services in Canada. There are two main issues that should be addressed with respect to licensing.

First, licensing requirements to become a banking service-provider in Canada do not serve the financial industry well. For example, the current Canadian fixed capital requirements do not fulfill their purpose of preventing systemic collapse for new FinTechs that are holding little capital. Since these capital requirements are very onerous to maintain, they stifle emerging FinTechs in their earliest stages of development. U.K. is currently leading in this matter. It has lowered the amount of capital requirements and reduced the time periods required to acquire banking licenses. This stems from the 2008 crisis, when policy choices were made to allow more choice in financial services, for better stability and efficiency. An alternative solution, also found in the U.K. and Switzerland, would be layered capital requirements, under which requirements are proportionate to the amount of capital held by a FinTech. There could also be a set capital minimum, under which there would be no requirements.

Second, there are no guidelines to assist new entrants with regulatory compliance through the different licensing processes. Because the regulatory framework is highly complicated to navigate, FinTechs need to contact a whole array of people in order to simply understand the unique compliance within each institution. Often, new FinTechs will feel that “they don’t know what they don’t know”. As a consequence, new entrants might get shutdown because they are found to be non-compliant. They also may have to resort to more “underground” practices to stay afloat, as they are unable to obtain business from financial institutions because they have not been “legitimated” yet.

Again, looking at initiatives in other jurisdictions can provide useful guidance. In the U.K. and the U.S., financial institutions like Barclays and Wells Fargo have created FinTech group divisions, to attract FinTechs as clientele. They are working with these FinTechs, assisting them in making them both functional and compliant. These groups also partner up with incubators and accelerators. Moreover, they ensure a “weeding-out” process, protecting consumers from toxic products and business models. Conversely, they allow emerging FinTech with great potential to develop.

Another recent initiative is the establishment by the Office of the Comptroller of the Currency in the U.S. (OCC) of an office dedicated exclusively to what it calls “[responsible innovation](#)”. Its main mission will be the implementation of a framework that will help the OCC ‘identify, understand, and respond’ to innovations that are currently having an impact on the federal banking system. The OCC wants a framework that is receptive to innovation, while adequately supervising it. The concrete actions that will be taken by this new office will notably include: establishing technical assistance outreach, conducting awareness activities, and promoting interagency collaboration.

In 2014, the Financial Conduct Authority (FCA), an important U.K. regulator, launched [‘Project Innovate’](#) to promote FinTechs and innovative businesses. The project includes: an Innovation Hub, to foster innovation; an Advice Unit, to assist with regulatory compliance; and a Regulatory Sandbox, a regulation-free ‘safe space’ where businesses may test their innovations in a live environment. The Australian Securities and Investments Commission (ASIC) has also created an [Innovation Hub](#), and is looking to create a Sandbox. Its hub is also meant to foster FinTech innovations, from which consumers could ultimately benefit. The aim is to help new FinTechs with regulatory compliance. The hub provides ‘tailored information’ for licensing and other regulatory requirements, all the while maintaining the regulatory system and the important protections for consumers and investors.

A final potential solution to alleviate the burden of compliance pressing on FinTechs would be the creation of an independent “technology audit”. These audits would grant a ‘stamp of approval’, much like an App-store would, to legitimate FinTechs, and weed out toxic financial products. An initiative in France, called ‘Finance Innovation’, has taken this type of approach. The procedure, called [‘labellisation’](#) in French, consists of an examination by a selection committee. Once this committee has approved a project, Finance Innovation certifies it. All the certified projects are thereafter listed on Finance Innovation’s public website.

3. Financing: Provide Proper Guidance and Regulatory Clarity

Legislators and regulators need to provide proper guidance and regulatory clarity in order to promote and support the financing of FinTechs. When potential investors examine new FinTechs, one of the first elements they look at is regulation clarity. However, there is regulatory uncertainty surrounding many areas of FinTechs (e.g. block chain technology). The current normative framework does not allow investors to thoroughly identify the services, business models, and activities provided by these new FinTechs.

As a main consequence of this lack of clarity, some FinTechs are unable to obtain adequate financing. Investors' refusals to grant financing are based on inaccurate premises and assumptions about FinTechs, because there is a generalized lack of understanding of technologies. A more proactive position on these matters on the part of the legislators and regulators would inevitably facilitate financing for FinTechs.

Conclusion

The general opinion of the Montreal FinTech ecosystem is that Canada is currently a “trendfollower” vis-à-vis FinTechs, not a trendsetter. However, it has the potential to be the latter. Jurisdictions like the U.K., U.S. and Australia have established frameworks that encourage the growth of FinTechs. FinTechs that show great potential for the Canadian economy are consequently tempted to pack up and establish themselves in those more progressive jurisdictions. The comments provided above can provide guidance for Canada to become such a progressive jurisdiction, and to attract promising FinTechs.

Although FinTech is the current industry buzzword, finance technologies should simply be regarded as means to improve the financial industry through the use of technology. FinTechs fuel growth in the finance industry, as well as in the general economy. Further, Canadian demographics are also introducing a new generation of financial market participants, which have very different expectations with respect to financial services. In light of the rapid pace of technological advancements, it is essential that the legislative and regulatory framework not only allows, but also promotes and supports FinTech growth. This would also allow the Department of Finance to meet its policy objectives of **stability, efficiency and utility**.

It should also be noted that all comments in this letter should be interpreted as pertaining exclusively to federal legislation and regulation. Finally, FinFusion consents to the full disclosure of this letter.

We thank you in advance for considering our comments, and we trust they will be helpful for the upcoming Review. Please do not hesitate to contact us via the contact information provided below if you have any questions or would like to further discuss our comments. FinFusion, as well as our members, look forward to collaborating with the Department, legislators, regulators, and other markets stakeholders, to participate in discussions, share their expertise, and determine the best way forward.

Yours sincerely,

FinFUSION
COMMUNAUTÉ FINTECH COMMUNITY

Board of Directors



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