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IOSCO Growth and Emerging Markets Committee issues recommendations related to the use of innovation facilitators

The IOSCO Growth and Emerging Markets Committee (GEMC) today published a [Report on The Use of Innovation Facilitators in Growth and Emerging Markets](#) with four recommendations for emerging market member jurisdictions to consider when establishing innovation facilitators.

The Report covers three types of innovation facilitators (IFs): innovation hubs, regulatory sandboxes, and regulatory accelerators. In recent years, financial regulators have adopted various initiatives to facilitate financial innovation. The emergence of Financial Technologies (Fintech) has the potential to improve outcomes for investors and consumers of financial services by, amongst other things, expanding choice and lowering prices, fees, and commissions, reducing transaction costs, improving transparency in products and markets, and increasing financial inclusion. However, Fintech also creates new challenges for financial regulators.

The Report was prepared during the COVID-19 pandemic, which reinforced the use of technology around the globe, notably due to social distancing restrictions. The Report found that a regulatory response to financial innovation requires a balanced approach between the potential opportunities of innovation against the risks for investors, the integrity of markets and the stability of the financial system.

Dr Mohammed Omran, GEMC Chair and Chairman of the Financial Regulatory Authority of Egypt, said, *“With the growing evolution of technological advancement, innovation facilitators provide an environment for firms to test their innovative products and to better comprehend the regulatory and supervisory expectations, in a manner that serves the public interest and does not bypass any legal and regulatory requirements, while ensuring investor protection, market integrity and the stability of the financial system. This Report sheds light on some of these regulatory and supervisory expectations and provides the ecosystem for establishing an innovation facilitator within the proper regulatory ambit.”*



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A jurisdiction's environment and characteristics remain among the most important considerations when assessing the establishment of an IF. Before a jurisdiction decides to set up one or another type of IF, policy makers and securities regulators should objectively review the existing legal and regulatory framework, the stakeholder ecosystem, including the private sector and other regulatory or supervisory bodies, the capacity and resources available, as well as the market conditions, including the competition frameworks and the overall maturity of the Fintech industry in their jurisdiction. To assist the relevant authorities in performing this analysis, the Report includes a decision tree with the steps to consider before setting up any IFs.

The proposed recommendations cover four areas:

- Considerations prior to the establishment of innovation facilitators;
- Definition and disclosure of objectives and functions of innovation facilitators;
- Criteria for application, selection and exit of eligible entities; and
- Mechanisms for cooperation and exchange of information with both local and foreign relevant authorities.

Lucía Buenrostro, PhD, Chair of the GEMC Fintech Working Group said, “This Report has been a collective effort of the GEMC members as financial innovation remains a priority for emerging markets. I am confident that the recommendations made here will contribute to having a sound balance between the regulatory and market development in emerging markets while guaranteeing investors' protection, market integrity, and the stability of the financial system. This Report is certainly providing a useful guide for regulators in terms of market pre-conditions, criteria, and international cooperation.”

NOTES TO THE EDITORS:

About IOSCO

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organisation's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions, and it continues to expand.

2. The IOSCO Board is the governing and standard-setting body of IOSCO and is made up of 34 securities regulators. Mr. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission of Hong Kong, is the Chair of the IOSCO Board. The members of the

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IOSCO Board are the securities regulatory authorities of Argentina, Australia, Bahamas, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Kenya, Korea, Malaysia, Mexico, Morocco, Nigeria, Ontario, Pakistan, Portugal, Quebec, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO's Affiliate Members Consultative Committee are also observers.

3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing more than 75% per cent of the IOSCO membership, including ten of the G20 members. Dr Mohammed Omran, Executive Chairman of the Financial Regulatory Authority, Egypt is Chair of the GEM Committee. The committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities focus on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building, among others.

4. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting internationally recognized and consistent standards of regulation, oversight and enforcement to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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