REGULATORY TRENDS IN FINTECH IN APAC

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There is no argument that the United States is the global leader in terms of the amount invested in the FinTech sector and the level of consumer and business demand for FinTech products and services. However, the Asia-Pacific ("APAC") region is emerging as an important source of investment funds and opportunities for FinTech entities led by significant activity both inside and outside of China.

Research undertaken last year indicates that FinTech investment in Asia during 2015 reached US$4.5 billion led by China (in excess of US$3 billion) with Shanghai Beijing and Shenzhen each hosting significant FinTech hubs. Much of this investment by Chinese companies is responding to the needs of a large consumer base who, while being digitally engaged, have been poorly served by traditional banking and investment management products. Significant FinTech activity in China has also been inspired by the growth of local success stories like Alibaba, Tencent, and UnionPay

Australia and Singapore have small but influential FinTech markets with sophisticated initiatives in a wide range of products, including marketplace lending, payments, roboadvice, and distributed ledger technology/blockchain. The Hong Kong market not surprisingly has a strong focus on FinTech activity in relation to capital markets while a number of banks in Japan are involved in initiatives focused on blockchain technologies.

GOVERNMENT POLICY

While governments in the region continue to be very supportive of the development of the FinTech industry, there are signs consumer protection and system integrity are becoming more important for some policymakers.

The Australian government has announced a range of policies aimed at addressing some acknowledged weaknesses in the Australian FinTech market, namely, the relative under-investment by Australian entities in early stage innovation and the lack of scale in the local market. The government has also provided the lead regulators with additional access to funds to enable initiatives like the Innovation Hub and to seed funding for FinTech industry bodies.

In Singapore, a joint Regulator/Industry FinTech and Innovation Group has been put together to coordinate strategies and regulatory policies, and the Financial Sector Technology and Innovation Scheme has been established to fund innovation labs and industry-wide initiatives.

In China, the tone of government policy for FinTech has been more cautious, with the China Banking Regulatory Commission recently introducing a set of new requirements aimed at addressing the risks associated with the

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proliferation of online marketplace lending products, including limits on the amount of individual borrowings.

The cautious tone from the government in China is also evident in comments from the Central Bank that there are too many participants in the payments industry and too many instances of incomplete risk management. This has led the People's Bank of China to issue a range of new custody requirements to bolster the regulation of payment institutions.

In Japan, the slow emergence of a FinTech industry in that country has pushed the government to establish a FinTech Centre at the Bank of Japan together with a FinTech Expert Panel whose purpose is to promote FinTech start-ups.

REGULATORY SETTINGS

Regulators in countries around the region have demonstrated an increasing awareness of the need to protect the integrity of local financial services markets while at the same time ensuring that those markets remain competitive both in a regional and a global sense.

A significant feature of the regulatory responses in the region has been the acknowledgement of the need for a coordinated approach to FinTech innovations. As the outgoing chair of the International Organization of Securities Commissions and current chair of the Australian Securities and Investments Commission, Greg Medcraft said at a recent forum in Singapore, "because the Internet knows no boundaries, cooperation and collaboration between regulators is critical, and developing responses to FinTech should not be done in isolation."

Examples of this coordination include regulators in Australia, Singapore, India, and South Korea entering into various cooperation agreements with each other and with significant regulators in other jurisdictions, such as the United Kingdom. These agreements cover things like sharing information about FinTech developments and emerging trends in their respective markets and allowing FinTechs to access innovation hubs in other jurisdictions.

Another feature of regulation in the region has been the introduction of regulatory sandboxes. Regulatory sandboxes provide a safe environment for companies developing products in the financial sector to test out their products and services during a distinct period on a specific number of investors. The companies have to regularly report to authorities, but do not have to satisfy all existing regulations immediately during the distinct testing period. These regulatory sandboxes exist in a range of jurisdictions, including Australia, Hong Kong, Malaysia, Singapore, Indonesia, and Thailand, with a number of the sandboxes being open to participants from other regional countries. Significantly, China has in the last month announced that it too would launch a regulatory sandbox to promote the development of the FinTech industry.

The policy and market settings in the APAC region are very supportive of FinTech, and the continued growth in FinTech-related investment looks assured. Activity in the region is headlined by China, but a number of smaller economies are emerging as sophisticated FinTech hubs, and Japan has begun to put in place the infrastructure that will result in it playing a bigger regional role.

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