

EU supervisors scrutinise FinTech sandboxes and innovation hubs

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The European Supervisory Authorities (ESAs), including the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA), have published a [report](#) setting out a comparative analysis and best practices in the design and operation of sandboxes and innovation hubs (“innovation facilitators”) established in the European Economic Area. The report was requested by the European Commission in its [FinTech Action plan](#), as part of its efforts to enable innovative businesses to reach EU-wide scale.

The report finds that 21 European Union (EU) Member States have established innovation hubs, but only 5 currently have operational regulatory sandboxes (the United Kingdom, Poland, the Netherlands, Lithuania and Denmark). The main difference between the two is that hubs serve as a point of contact for non-binding guidance on conformity of products/services with the existing rules, while sandboxes provide a testing environment for the firms monitored by national supervisors.

The report highlights the main challenges faced by authorities in this context including difficulties keeping up with the industry developments and employing staff with adequate expertise. FinTech requires a multi-disciplinary approach, which often includes issues reaching beyond financial services regulation, such as data protection. The EU is currently focused on facilitating cross-border cooperation among authorities in order to ensure a level playing field and prevent regulatory arbitrage or forum-shopping.

Looking ahead, the ESAs recommend the establishment of an EU network of Member States’ innovation facilitators and suggest developing cooperation and coordination guidance. The ESAs however note that the key impediment to the scaling up of FinTech in the EU comes from the differing transposition of EU law in individual EU Member States, which gives rise to varying definitions and therefore different authorisation and licensing requirements. The ESAs underline that this key issue cannot be effectively solved only with guidance or network arrangements.

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