

FMA Focus: RegTech

Using innovative technologies to optimise regulatory and supervisory processes

"RegTech", a combination of the terms "regulatory" and "technology", means using innovative technologies for optimising regulatory processes in the financial economy and in supervision. Such technological solutions for problems are applied accordingly both by supervisors as well as by financial services providers. The objective is to improve the efficiency and effectiveness of processes, to increase the quality of data, as well as to reduce costs. Such objectives are currently in particular being achieved by using innovative digital information technologies such as cloud computing-based services, blockchain and distributed ledger technology (DLT), smart contracts, algorithmic systems, API interfaces, data visualisation techniques, big data and data analysis as well as artificial intelligence (AI) elements.

RegTech can support many areas of regulation – The Vision and Practical Experience

- **Regulatory Reporting:** there are already a range of tools available that aggregate multiple data sources into a single uniform data set, and make it easier to query this data. Data does not need to be prepared every time a report or enquiry is made, but instead is ordered in multiple dimensions in flexible "cubes", and presented logically. A multidimensional matrix of data is formed, from which the various reporting data may be extracted. It is also possible to "zoom in" into the various data levels just as quickly as it is to aggregate the data.
- By using blockchain technology in the future it may even be possible in some areas to perform automated and dynamic reporting using smart contracts. "Instant reporting" and "compliance on demand" are also currently under discussion.
- **Customer Due Diligence / Know Your Customer:** In this case data from different data sources should be extracted and analysed as well as quickly as possible; such as to accelerate the risk classification of a customer. However, it is currently still not clear to what extent "open source data" or purchased data will be allowed to be used for this purpose.
- **Risk Management / Controls Automation:** Systems for the identification and the management of back-end and operational risks within the entity.
- **Pattern detection and monitoring** for preventing criminal activities such as fraud, insider trading or market manipulation: the first artificial intelligence-based (AI) tools are currently being developed.
- **Simulations for Stress Tests:** Algorithms can be used to perform calculations at a high speed for all different kinds of scenarios, with such algorithms being able to be adapted on an ongoing basis to the current situation of the individual entity.
- **Cybersecurity Software:** from firewalls and malware detection software, through to the latest encryption methods.
- **Communications Monitoring:** e.g. searching and filing systems, as well as multi-channel communications systems

Within its supervisory activities, the Austrian Financial Market Authority (FMA) considers itself as a pioneer of technological development, and also generally has a neutral position regarding the usage of new technologies by supervised entities. As a government authority, the FMA is also involved in the "Digital Government" and "Digital Policy" initiatives. As part of the Digital Policy, stakeholders are included electronically in the consultation stages for both Austrian legal acts and European Directives, with the affected parties thereby gaining an understanding of the legal process. With regard to the Digital Government area, it is particularly worth mentioning the electronic signature, which has established itself as a new standard.

The FMA uses RegTech for a broad range of activities. Some examples include:

- The FMA's "Incoming Platform" allows the electronic submission and processing in accordance with various laws for specific reports and reporting data from credit institutions and payment institutions, investment service providers, insurance undertakings and Pensionskassen (pension funds).
- The "Alert Surveillance Tool" monitors the trading in stock exchange-listed transferable securities on an algorithmic basis, and raises the alarm when there are significant deviations from prescribed parameters. The system processes one to two million records per day.
- Data cubes in insurance supervision support the structuring and analysis of data that are required to be reported under Solvency II. In banking supervision, the Oesterreichische Nationalbank (OeNB) uses data cubes in order to prepare the basis for decisions for the FMA (for further information see <https://www.oenb.at/Statistik/Meldewesen/gemeinsames-meldewesen-datenmodell.html> - in German only).
- Algorithms are used to support the risk classification of financial services providers in the prevention of money laundering.
- Last, but not least, the Elektronische Akt (ELAK) electronic filing system has become a byword for efficient administrative proceedings.

"RegTech set in Law" - electronic prospectus checking

As part of the outcome of the Supervisory Reform of 2017 (Aufsichtsreform) from 03.01.2018, the approval procedure for prospectuses and supplements to prospectus shall exclusively be conducted electronically. As a result the initial submission and the version for approval is no longer required to be signed by hand by the responsible party for the prospectus, the FMA is no longer required to add its stamp of approval in terms of physically stamping the prospectus, and the issuer no longer required to physically submit a copy of the prospectus to the Oesterreichische Kontrollbank (OeKB). The assignment of the prospectus to a party responsible for the prospectus is intended to be guaranteed by means of a registration mechanism through an Internet-based platform, on which a personal login is created for uploading the prospectus. The approved prospectus is then filed at the OeKB by the FMA using a secure data connection.

Service providers

RegTech is an area that requires close cooperation between financial services providers and technical service providers. This interface between supervised and unsupervised entities presents a particular challenge: namely understanding the legal framework of the other party. In this case it is necessary to take into account supervisory law issues like "Outsourcing" or the implications of the Payment Services Directive II (PSDII). There are often legal areas involved, for which the FMA is not the competent authority, or is only indirectly competent: for example the new General Data Protection Regulation (GDPR) will soon herald a completely new European legal basis for the processing, storage and exchange of data.

Whether as well as which rules under supervisory law are affected by such applications must be clarified for every business model on a case-by-case basis. In most cases, RegTech service providers do not provide any financial services themselves that require a licence. Frequently, they offer their products to licensed financial services providers.

Do you want to know whether a RegTech application that you have created for financial services providers is subject to rules under supervisory law?

You can gain an initial overview by consulting our [FinTech Navigator](#),
or send an enquiry to our [FinTech Point of Contact](#).