



London FinTech Conference: Key Takeaways

On April 17, 2018, Cleary Gottlieb hosted a conference in the heart of the City of London to discuss key issues in the FinTech space. The conference was well attended, and a wide range of topics were discussed by industry leaders.

Bob Penn, a partner in financial services regulation at Cleary Gottlieb, opened the conference. In welcoming the speakers and guests, he observed that FinTech had the potential to effect transformative change on the provision of financial services and products and that it was a very apposite time to be having a discussion on this subject.

Keynote Address

The keynote address was delivered by Ilyas Khan, the chief executive officer and founder of Cambridge Quantum Computing, in the form of a discussion with Cleary partner Michael Krimminger. His speech explained the fundamentals of quantum computing to the audience and recognized the technology's potential to drive change in the coming century. In particular, his remarks focused on the development of quantum security and encryption services and how he believed devices that consumers use on a daily basis would be impacted by such changes.

Ilyas explained that a number of technology companies, notably IBM, Microsoft, and Google, are in the process of developing and testing quantum technologies and that there is considerable geographical, corporate, and platform competition between them to develop marketable products. He also explored the potential of quantum chemistry and quantum technologies to revolutionize society and the economy by the development of new materials.

The conference also featured two panels. Summaries of each of the panel discussions are outlined below.

FIRST PANEL: "BEYOND BITCOIN: DIGITAL LEDGER TECHNOLOGIES"

Michael Coletta	London Stock Exchange Group
Lucie Munier	Qadre
Ranvir Saggu	Blocksure
Gavin Wells	Digital Asset
Knox McIlwain	Cleary Gottlieb (Moderator)

Why Use Blockchain and DLT?

- **The “efficiency play”:** Blockchain and DLT can be, and are being, used to drive efficiencies in a number of sectors, from financial and insurance services to residential conveyancing. The panelists agreed that the technologies had the potential to shift complex manual processes to automated scalable ones, which would take a fraction of the existing time to complete.
- **Disruptive technologies:** The panel disagreed that the technologies were “disruptive” but acknowledged that they had great potential to develop areas of the financial markets where there are currently high barriers to entry or little market infrastructure. The panel discussed the ways in which DLT could be used, for example, to reduce the administrative barriers for small and medium-sized businesses that wish to access the international capital markets.
- **Immutability:** The immutability of blockchain and DLT, meaning the inability of participants operating on these systems to change the record of past transactions, is frequently touted as a major benefit of the technologies. The panelists agreed that this was more often an ancillary benefit compared to the efficiency savings that companies hoped to make.

Regulatory Framework

- **Praise for regulators:** panelists commended European and U.S. authorities for their open and discursive approach with industry members. They all agreed that these technologies had to operate within the parameters of existing regulation but that initiatives such as the regulatory “sandboxes” in the UK and other jurisdictions, in which authorities permit companies to test their new products with consumers subject to limited safeguards, should be encouraged.

- **The “right to be forgotten”:** The impact of the forthcoming general data protection regulation (GDPR), specifically the right of individuals to request the erasure of personal data, was considered. The panelists did not believe that there was currently an irreconcilable conflict between the “right to be forgotten” and the immutability of blockchain technologies. They noted that current blockchains that record personal information are not widely used enough in critical everyday processes for this problem to present itself. They also noted that technological solutions are available to comply with GDPR and related requirements.
- **Evolving social norms:** The panel believed that there was no strong current desire for a completely decentralized technology except in a few limited instances. They agreed that there would need to be a societal change in the way that people thought about buying and selling assets before a completely decentralized and immutable system was commonplace. They also noted that a key component of this change would be convincing the public and regulators of the reliability of the technology.

Potential Future Problems

- **Standardization:** There is a limited level of standardization between different DLT platforms, which may impede the future uptake of the technologies. The panel believed that standards would have to be developed to enable new and existing technologies to work compatibly or, alternatively, that over time one particular platform could become dominant.
- **The interoperability issue:** Panelists concluded by looking at the potential for interoperability between different blockchains and platforms. For example, personal identity verification providers could be used to verify individuals for “know your customer” purposes for a variety of different institutions, which could dramatically increase the speed of client onboarding.

SECOND PANEL: "DEVELOPMENTS IN THE LONDON FINTECH MARKET"

Nawaz Imam	Issufy
Gavin Lee	CME Group
Julian Macedo	The ECM Team
Sarah Lewis	Cleary Gottlieb (Moderator)

The Impact of FinTech

- **A climate for change:** The panel acknowledged certain challenges within the financial industry – increased financial and regulatory pressures on investment banks, a shrinking number of syndicate banks, and declining investor interest – which present an opportunity and the impetus to find ways of carrying out transactions differently and more efficiently.
- **Adaptation is necessary:** Financial markets have shown their ability to embrace new processes as technology has developed. Over time, the implementation of electronic trading, for example, achieved far greater volumes and efficiencies. However, the panel considered whether bureaucratic inertia within institutions was now preventing a substantial shift away from tried and tested methods to new products becoming available, especially in the area of capital markets transaction execution.
- **Collaboration:** FinTech startups cannot instantly replace the role of global financial players, but partnerships with third parties that offer new platforms can enable traditional investment banks to tap into new ways of doing things. The panel agreed that collaboration across the industry could provide the incremental change needed for issuers and investors to build up trust in new technologies.

Regulation and Technology

- **The role of regulation:** Whilst burdensome to some, regulation seeks to put in place the framework for better decision making and produce better outcomes. Panelists discussed whether technology is a facilitator of regulation, or if technology has become intrinsic to regulatory enforcement in an age of evidence-based compliance.
- **Talks with the regulators:** The panel welcomed the experimental approach advocated by the FCA's regulatory "sandbox" as conducive to developing better regulation, faster. UK regulators had seemingly recognized that new technologies may not fit easily within the current regulatory framework. Interaction with tech pioneers could provide regulators with the understanding needed to respond appropriately.
- **Harmonization:** Although the approach of UK and EU regulators to FinTech has so far been encouraging, the panel agreed that differing regulatory requirements across jurisdictions are at odds with both the global nature of the financial industry and the new technologies being developed.

What's Next for FinTech?

- **Efficiency:** Technology being developed has the potential to transform capital markets. Platforms could enable research reports to be disseminated more widely through single-user data rooms, or for multiple legal teams to work on offer documents simultaneously. However, a catalyst would be needed to facilitate the adoption and transition to new processes and infrastructure.
- **Brexit:** The financial industry is used to responding to regulatory change, and Brexit may allow for greater flexibility depending on how closely the UK remains aligned with the EU regulatory framework. The panel concluded that a continued perception that the UK is a desirable place for individuals and tech firms to start new projects is crucial to the success of FinTech in London.

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