Law to regulate Financial Technology Institutions

2018
International regulatory experience

- Given the sustained and accelerated growth of the FinTech sector worldwide, and inherent risk that this industry poses for the stability and integrity of financial systems, several countries have regulated or, are in the process of regulating the FinTech sector.
  - In fact, this regulation has been one of the key issues in the discussion at various international forums and international organizations in which Mexico participates actively, mainly the Financial Stability Board of the G-20 (FSB).

Collective financing:
- USA, Canada, China, Spain, Italy, France, Finland, United Kingdom, and New Zealand.

Electronic payments:
- USA, European Union, United Kingdom, Peru, Colombia, Bolivia, Paraguay, Uruguay, Brazil, and Kenya.

Virtual assets
- Certain States within USA, The European Union, Australia, Canada, and Japan. (These States and countries, have done focusing on fiscal issues and money laundering)

Innovative firms
Regulatory sandbox:
- United Kingdom, Australia, USA, Singapore, Ontario, Malaysia, Thailand, Hong Kong, and Indonesia.
Given the inherent risks that this industry presents for financial stability and the consumer, as well as its great dynamism, a Law was recently approved to Congress based on 5 governing principles (to provide more flexibility) and secondary regulation which will be actively updated according to the sector needs.
E‐money and crowdfunding entities will be able to operate with virtual assets approved by the central Bank of Mexico.

The Central Bank of Mexico will determine which virtual assets may be used, as well as their respective conditions and restrictions.

Any institutions that operates with virtual assets must comply with AML/CFT regulatory framework.

Issuance, administration, and redemption of electronically registered money balances will be permitted to make payments or electronic transfers.

Operations can be carried out in Mexican pesos or virtual assets.

These can act as money transmitters.

They will be able to commercialize, issue, or manage means of disposal.

They will not be allowed to pay yields for accumulated balances.

Authorization to carry out financing operations (debt, capital or co-ownership)

– Debt crowdfunding entities must use at least one Credit Bureau.

Risk disclosure regime.

A single project cannot be funded by more than one platform.

Guaranteeing yields is prohibited.

Incentive alignment schemes. (e.g. skin in the game).

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Mexico’s FinTech Law

Regulated figures

**Definition:** “legal space” under which a *regulated activity* (that needs an authorization, registry or concession) can be carried out under a *ad hoc regulatory framework* during a *limited time period*.

- Its purpose is *to support innovation*
- The *launch* of the product or service has to be carried out for a *limited scope and number of customers*.

**Regulation:**
- *Temporary licenses* will be granted.
- This scheme can be *used by either new unauthorized firms, or established financial institutions*.

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Other

Regulated figures

**Definition:** technological specifications *used by apps to communicate with financial entities* (*e.g. sharing information among others, etc*).

**Regulation:**
- Financial entities, money transmitters, clearing houses, and Financial Technology Institutions (FTI) firms *must have APIs*.
- *Clients consent will be necessary* to share their information, either from a financial entity to a FTI firm or vice versa.
- *Financial entities will be allowed to charge a fee* for the use of their APIs (as its development is costly). These charges will be *regulated and supervised* by the relevant authority.
FinTech sector risk

- Money laundering & financing of terrorism.
- Financial & systemic risks.
- Legal uncertainty.
- Lack of consumer protection.

Technological risks

For instance: impersonation and identity theft, information privacy, and platform or databases integrity
FinTech sector in Mexico

- Payments and remittances
- Identity and anti-fraud protection
- Technological solutions for financial institutions
- Payments with virtual assets
- Wealth management
- Lending: P2P
- Lending
- Securities exchange
- Enterprise financial management
- Personal financial management
- PFM: comparison
- Insurance
- Financial education and savings
- Crowd funding

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FinTech Innovation Radar For Mexico 06/07/2017
Sector Benefits Fintech

- Fosters competition
- Promotes financial inclusion
- Highly scalable models
- More efficient and less costly processes
- Reduction of Systemic risk (TBTF)
- Increases the safety and quality of services

... among others.
FinTech sector in Mexico

Thanks for your attention