Securities Regulation Daily Wrap Up, TOP STORY—FINRA seeks comment on fintech innovation, potential rule and program modifications, (Jul. 30, 2018)

Securities Regulation Daily Wrap Up

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FINRA is soliciting comment on financial technology and innovation, particularly in connection with the provision of data aggregation services, supervision of artificial intelligence use, and the development of a machine-readable rulebook. The request is part of FINRA's Innovation Outreach Initiative and related efforts to seek broader feedback regarding how FINRA rules and programs could be modified to facilitate fintech innovation without negatively affecting the integrity of the markets.

"We also hope to learn about any potential areas of innovation that would benefit from a greater focus on investor protection safeguards," said FINRA President and CEO Robert Cook.

Fintech. In its special notice, FINRA notes that fintech can present benefits for investors and the industry as a whole, but could also raise investor protection concerns if the safeguards of securities laws and regulations are not taken into account. As financial services providers are increasingly incorporating technology into their businesses, the organization stresses the importance of monitoring developments and adapting its regulatory programs as appropriate. The notice highlights the steps FINRA has already taken to improve its understanding of fintech and inform the public and FINRA members, including the creation of a committee to evaluate the potential impact of fintech on FINRA's objectives and means by which to support innovation. FINRA is also engaged with fellow regulators and has issued multiple alerts to warn investors of potential risks involved with initial coin offerings and digital currencies, the notice explains.

However, according to FINRA, more can be done. As such, FINRA is seeking comment on how its rules and administrative processes could be modified to assist in further developments in fintech in a manner consistent with investor protection and market integrity and whether any areas of innovation could benefit from an enhanced focus on investor protection concerns.

Data aggregation services. Using data aggregation to compile financial data from separate institutions into one place could prove helpful to investors, FINRA notes. Data aggregation service providers may obtain their clients' credentials for accounts that the clients seek to have aggregated, and an automated process is used to access third-party websites and collect applicable information. Broker-dealers may play a variety of roles in data aggregation, and some have noted that issues regarding access, security, and integrity can arise. FINRA requests comment on whether it would help to form a working group to develop standards or protocols with regard to data aggregation and what role it could play in assisting broker-dealers and investors in addressing issues raised in the process.

Artificial intelligence. Artificial intelligence tools are increasingly used in areas such as anti-money laundering/know-your-customer compliance, trading, and data management and could serve to improve operational efficiency while enhancing the customer experience, FINRA notes. However, broker-dealers are grappling with how these tools fit into the existing regulatory framework. As such, FINRA requests further information on how its members are using, or considering the use of, artificial intelligence tools such as chat bots and robotic process automation in their brokerage businesses and what benefits and risks the tools pose. The organization also asks whether there are difficulties associated with administering supervisory obligations in the context of decision-making facilitated by artificial intelligence and how the organization could adapt its rules and processes in connection with these innovations.

Machine-readable rulebook. To address some of these challenges involved with keeping pace with regulatory changes, industry participants have begun to explore how technology and innovation can be used to increase efficiency in compliance processes, FINRA explains. Other regulators are considering means by which to simplify compliance through the digitization of rulebooks, and FINRA requests comment to gain a better understanding of the potential benefits and challenges and overall feasibility of developing of a machine-readable rulebook using an embedded taxonomy to improve accuracy while minimizing compliance costs and simplifying implementation. Specifically, FINRA asks who would primarily benefit from development of a machine-readable rulebook and whether the change would create a risk of overreliance.

Comments are due by October 12, 2018.

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