



## FinTech | Have you read the Kalifa Report?

March 2021 – FinTech Regulatory Tapestry

As those of us in the financial services sector know, today FinTech is at the heart of much of what we do. This may be in how we **onboard clients**, the use of **blockchain processes**, to **artificial intelligence** used within investment methodologies to the making of **e-payments**.

There is no one single piece of FinTech regulation but a tapestry which does require careful navigation.

### The Kalifa report says what?

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/965687/KalifaReviewofUKFintech.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/965687/KalifaReviewofUKFintech.pdf)

The Report’s recommendations include a **5 point plan** which is summarised below:

<b>Policy and Regulation</b>	<ul style="list-style-type: none"> <li>Deliver a digital finance package that creates a new regulatory framework for emerging technology</li> <li>Implement a “Scalebox” that supports firms focusing on scaling innovative technology</li> <li>Establish a Digital Economy Taskforce (DET) to ensure alignment across government</li> <li>Ensure that fintech forms an integral part of trade policy</li> </ul>
<b>Skills</b>	<ul style="list-style-type: none"> <li>Retrain and upskill adults in support of UK fintech by ensuring access to short courses from high-quality education providers at low cost</li> <li>Create a new visa Stream to enhance access to Global Talent for fintech scaleups</li> <li>Build a pipeline of fintech talent by supporting fintech scaleups to offer embedded work placements to Further Education and Higher Education students and Kick-starters</li> </ul>
<b>Investment</b>	<ul style="list-style-type: none"> <li>Expand R&amp;D tax credits, Enterprise Investment Scheme and Venture Capital Trusts</li> <li>Unlock institutional capital to create a £1bn “Fintech Growth Fund” of sufficient scale to act as the catalyst in developing a world leading ecosystem</li> <li>Improve the listing environment through free float reduction, dual class shares and relaxation of pre-emption rights</li> <li>Create a global family of fintech indices to enhance sector visibility</li> </ul>
<b>International</b>	<ul style="list-style-type: none"> <li>Deliver an international action plan for fintech</li> <li>Launch an international “Fintech Credential Portfolio” (FCP) to support international credibility and increase ease of doing business</li> <li>Drive international collaboration through the Centre for Finance, Innovation and Technology, and launch an International Fintech Taskforce</li> </ul>
<b>National connectivity</b>	<ul style="list-style-type: none"> <li>Accelerate the development and growth of fintech clusters through further investment, such as in R&amp;D</li> <li>Nurture the high growth potential of the top 10 fintech clusters</li> <li>Drive national coordination strategy through Centre for Finance, Innovation and Technology</li> </ul>

*What else? See over*

## What else?

The report recognises the need for a vehicle to coordinate the delivery of its wide-ranging recommendations and suggests establishing a government-backed industry-led Centre for Finance, Innovation and Technology (**CFIT**) to take up this task.

The European Commission published its **Digital Finance Package** in September 2020. This included a strategy outlining its **fintech regulatory agenda to 2024**.

The report suggests the UK could do with a similar plan.

The report also suggests creating a new Digital Economy Taskforce to manage this process.

The report outlines, albeit at a high level, examples of specific initiatives that could form part of the UK's digital finance policy. Among other things, this includes developing a **central bank digital currency**, supporting the digitisation of Financial Market Infrastructure, introducing a new regime for the regulation of crypto-assets and amending payments regulation to take a more principles-based approach.

These points are consistent with ongoing work in these areas that will be familiar to many.

It also sets out specific recommendations in relation to cross-sectoral issues such as data as well as Environment, Social and Governance objectives. In respect of ESG, the report identifies the opportunity for technology-driven solutions for collecting and processing ESG data – which is a development that we have seen taking place already.

It makes a number of recommendations aimed at addressing potential obstacles to achieving this, for example in relation to standardisation needs.

The report also recommends that the UK continue to maintain an international outlook by participating in the Global Financial Innovation Network, leading the development of policy and regulation in areas of crypto and digital assets and monitoring initiatives of other jurisdictions.

The report also indicates that some consolidation is needed to support the growth of UK FinTechs.

It suggests that the Competition and Markets Authority (CMA) considers a more flexible approach in its merger control assessments in this fast-moving sector. However, that seems to go against recent trends where we have seen global competition authorities enhancing their scrutiny in dynamic markets (and this sector specifically), in the belief that potentially problematic deals may have slipped through the net in the past.

The CMA has in particular been taking a tough line on mergers in recent years, including in tech/fintech markets. Against that backdrop, it seems likely that the CMA will be cautious in when considering whether to relax its approach to FinTech as a sector.

*What next? See over*

## So what next?

The report has now been presented to the UK government. The Chancellor welcomed it, noting that it makes “an important contribution to our plan to retain the UK’s fintech crown”. The government has committed to review the recommendations in more detail and respond in due course.

The report calls for progress to be assessed in exactly a year’s time.

### **We will continue to monitor and advise on developments.**

Should you wish to discuss any part of the report and its possible impact on your business please contact us whether to discuss the implementation of the likely changes (future-proofing), to consider your firm’s strategy or to undertake a review of your current use of FinTech solutions.

Call or contact us now via any of the contact methods shown below:

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