NewFinance

Financial Innovation through Technology

FinTech Challenger Businesses Workshop

Request for Comments – v1.1 FINAL

This document captures the roundtable discussions from the FinTech Challenger Businesses Workshop held by NewFinance on 29th October 2013

Please see the following link for more details: http://www.meetup.com/newfinance/events/144350762/

30th December 2013

A. CROWDFUNDING

	Topic	Detail of the barrier /challenges	Implications of the barriers for the Business [and UK PLC]	FinTech participants' suggestions for addressing the barriers
1	Access to Finance: General	• Lack of clarity for applicants about the type of funding available, how long it is available for and who is eligible • Application process for finance schemes needs improving, for example, it is often slow and archaic (Enterprise Investment Scheme requires companies to complete printed forms)	• Lack of awareness and access to existing finance streams • Time/Cost of applying	• Improved communications around existing funding streams and eligibility (for example Seed Enterprise Investment Scheme/EIS, Business bank investment programme, match funding) • Speeding up deadlines for application decisions • Providing clearer reasons for non-approval, so that companies can re-apply • Automating/improving the Enterprise Investment Scheme approval process at HMRC
2	Access to finance: Match funding	• Match funding is currently limited and only available for loans	• Government matched funding helps companies with their credibility, and can help them to attract finance/business from elsewhere	• Companies want match funding to be more widely available, and allocated to a wider group of platforms
3	Access to finance: Seed Enterprise Investment Scheme	• General support from the table for SEIS and EIS, but: - Concerns that the advantages will be removed from crowd funding in the future, making it less attractive to investors - General confusion about eligibility of crowdfunding for S/EIS. Crowdfunding is eligible if you read the small print, but often still classified as financial services (which are not eligible) and not technology	• Companies get rejected unnecessarily from existing finance opportunities • More companies eligible for schemes	• Commitment to retain SEIS/EIS • Provide clarity that crowdfunding is eligible • Change eligibility criteria, for example by expanding EIS to cover firms targeting SMEs and consideration of a low risk EIS

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		firms (which are eligible) - Sector would benefit from a low risk EIS? 10-15%		
4	Access to finance: Reputation and Regulation	• Barrier to growth if Loan-based crowdfunding platforms are regulated like investment firms • Impacts attractiveness of the Crowdfunding business model. Businesses and institutions may be put off, both by the need to be authorised just to invest in the loans, as well as uncertainty as to their compliance obligations given that their own systems aren't even involved • Issue around Self-Invested Personal Pension funds - limitations on degree to which they can be used for crowd funding activities. Two participants flagged issues of trustees not fully engaged with potential due to perceived credibility and liquidity issues	• Less finance available for crowdfunding and peer 2 peer platforms	• Creation of a secondary market for crowdfunding loans – welcome the current FCA thinking in relation to this [i.e. investors being able to able to sell their interest in a loan at prevailing market prices] • Need to follow up on any potential considerations for opening up SIPPs to alternative investments
5	Access to finance: Barriers to reaching IFAs	• IFAs struggle to get Professional Indemnity insurance to advise on crowdfundind investments, as they cannot carry out due diligence on small investments/start ups. • IFA can advise on plattform but not individual investments on that platform • In other roundtables this issue was also flagged: an IFA informed that as of late October his personal liability insurance specifically excluded making recommendations for investment under the SEIS	• Limits pool of investors • Damages credibility of the Crowdfunding and Peer to Peer market	• Assess how proportionate the IFA regulations are in relation to the crowd funding and peer to peer markets. • Risk that as significant mediums for accessing financial services that they direct investors to market incumbents

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6	Tax: ISA's	• Crowdfunding loans are not eligible for ISA's, even though they arguably have the same risk profile as investments that are allowed. • Contention is that certain tax relief favours banks and the suppliers of regulated investments to the detriment of innovation and competition. • In particular, the tax free ISA system drives people's savings into UK bank deposits on a major scale. The argument follows that this discourages an individual from diversifying their investments [i.e. through crowdfunding and peer2peer]	• More companies eligible for investments through ISAs – increase attractiveness of platform • Mark Littlewood, in previous incarnation of Challenger Business programme noted, "...it is surely worth noting that the present format and definition of the ISA wrap may have raised "barrier to entry" problems for new financial products and it may be beneficial to review these to stimulate innovation in the sector."	• Change the rules for ISA's to allow them to include lower risk loans based on crowdfunding • This appears to have been previously recommended by the Breedon Taskforce but rejected by HMRC. • Argument against this decision, drawing on macro economic impact [and comparison with Germany] is set out here: http://sdj-pragmatist.blogspot.co.uk/2012/10/careful-what-you-incentivise_2.html
7	Tax	• Individual or sole trader investors pay tax on interest, but cannot offset it against losses/debt - in the way that a bank could • Bad debts accruing to Lenders via the Platform are not	• Lack of level playing field. Would allow companies to take on more/different types	• Change the tax regime to allow individuals/sole traders who lend via crowdfunding platforms to offset losses against income tax (or CGT?)

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		deductible from interest income received within the Platform before determining the liability to tax; and lenders must also pay tax on the interest income necessary to cover bad debts, although they do not benefit from this income. • As a result, a significant tax distortion exists	of risk, and therefore help more businesses • It could be assumed HR taxpayers are effectively priced out of this market, and a number of others with large Effective Tax Rates	• The Parliamentary Commission on Banking standards recommended that the Treasury examine the tax arrangements and incentives in place for peer-to-peer lenders and crowdfunding firms compared with their competitors. • A level playing field between mainstream banks and investment firms and alternative providers is required. (Paragraph 359). Need to confirm stage / results of this examination
8	Regulation: Framework and basic definitions	• Need clearer and more consistent use of definitions and terminology, and appropriate and consistently applied regulation that takes account of the risk profile of the investment • There were concerns that the approach in the FCA consultation draws a simplistic distinction between loans and equity • Risk profile is not related to whether it is a loan or not, but the risk profile of the business in which the investment is made. For example, there are three types of loan (simple, debenture, retail bond) some of which are regulated, some of which are not. This has lead to a situation where re-financing existing solar loans [for example] is seen as more risky than a simple loan, which will prevent people from re-financing such loans • Some more detailed examples given were:	• Barrier to access/lack of level playing field	• Ensure new regulatory framework is proportionate to risk, and consistently applied. • In particular, it needs to clearly distinguish between the types of platform, instrument, client (retail vs institutional) and end assets (early stage vs well developed business) and the risk associated with each • Regulatory framework needs to take into consideration: that risk stems from a combination of: - Risk profile of platform (eg type and how it operates) - Investment vehicle - Type of client/investor - Risk of asset/activity being financed

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		- Debenture seen as too risky and so "over-regulated", vs. - Retail bonds seen as "safe" despite 3 year investment timeframe with no exit		
9	Regulation: Regulatory Limitations on how quickly the market can grow	• Suitability requirement under FCA proposals on advised crowdfunding sales require investors to seek advice if they invest more than 10 per cent of their net investible portfolio in unlisted shares or unlisted debt securities - as one commentator put it, "*It will still be easier to stick a tenner on a pony, where the bookmaker wins, rather than back a local business to support the economy*". [http://sdj-pragmatist.blogspot.co.uk/2013/10/crowdfunding-regulatory-arbitrage.html] • IFA's cannot provide advice on individual crowd funded investments due to the requirements of the Retail Distribution Review (i.e. that investments are listed and/or (?) due diligence is undertaken at the investment level – clearly not practical here. So a catch 22…) • Business lenders have to be regulated, so if they are lending through a platform both the business and the platform are required to be regulated	• Barrier to access/growth • Lack of level playing field • Barrier to institutional and business lending	• Overlapping and contradictory requirements should be removed. For example, - Need to address the conflict between the suitability requirements in the FCA consultation and the Retail Distribution Review (RDR) requirements on (due diligence?) - Peer to peer loans should be removed as specified investments to prevent a situation where both the platform and the product is regulated. - Requirement for investing/lending in the course of a business on crowdfunding platform to be authorised should be removed (as platform will be authorised) • Some participants at the Roundtable draw comparison to the French model [see below] where loan based crowdfunding platforms are to be regulated more like payment platforms and not investment firms

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10	Regulation: Process	• Need to streamline the authorisation process as - Rules are ambiguous ; it remains the responsibility of firms to assess whether they fall within our regime and to apply for authorisation if necessary - FCA process requires new innovative businesses to demonstrate significant working timeline (6-9 months) and money (150k) to develop business far enough for FCA to understand it well enough to consider authorisation - Process then takes 5-6 months to get authorisation	• Barrier to access • Risky and costly to business as they do not know if they are likely to get authorisation or not	• Degree to which a platform must be ready before a company can apply for FCA authorisation should be minimised. For example - - Could there be some kind of pre-approval process to give companies comfort to go ahead with further development planning, but not lower the regulatory bar? - - Could the current process for loans (which require a consumer credit licence, and which is much easier to get than the new system will require) be retained in some way? - - Could you allow companies to operate under a certain threshold unregulated – investors would then invest at own risk, but a big/high profile problem could undermine whole industries credibility • Consider French proposal as a counter point to the UK approach: The intention is to use the small payment institution provisions of the Payment Services Directive to require registration by donation-based and loan-based crowdfunding platforms. Above that threshold, platforms would need to be fully authorised as a payment institution, with minimum capital of €125K and higher amounts based on various optional calculations.
11	Credibility /awareness: in relation to clients	• Industry needs to be taken more seriously by government and public and seen as a credible form of finance • Awareness of the opportunity to borrow online	• Borrowers see as risky and new • Less borrowers linking to platforms	• Government to consider role of crowdfunding as an option in all policy, for example, is it on the access to finance portal? • Industry needs to pool data, for example, information and evidence on default rates, jobs

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		amongst businesses, brokers/accountants and the public is low • Local government generally not engaged (though there are good examples) • Lack of public sector engagement - public sector pensions could show more leadership		created, sector growth rates, businesses/individuals supported). Information should then be included in appropriate data sets, for example, Bank of England data • Definitions and communications about the industry need to clearly distinguish between the types of platform, instrument, client (retail vs institutional) and end assets (early stage vs well developed business) and the risk associated with each; • There should be consistent messaging and support from a range of sources, including: - Ministerial level support for crowdfunding industry and diversification of financial services; - -Consistent messages from government - -Support from financial press
12	Working with incumbent banks	• Banks are not good at dealing with companies that they cannot define/new sectors, which can slow things down or prevent companies accessing banking services, as they are (incorrectly) classified as high risk. This leads to problems such as: - speed of opening accounts - general co-operativeness - difficult/time consuming to agree priorities with banks - no standardised operation of legal security with banks – leads to higher costs	• Lack of access to banking services • Higher operating costs	• Over classification of the risk of crowdfunding platforms by banks, needs resolving, • For example, by obliging banks to provide payment systems/segregated accounts to crowdfunding platforms; or transparency from banks over whether they offer segregated functionality and charges for it

B. PAYMENTS, FX AND MONEY TRANSFER

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1	Access to payment systems	• Access to Faster Payment System is controlled by a small number of banks • Access via the current agency model is not competitive • Payments regulator will not be up and running for 2 years which will allow banks to ingrain their incumbency e.g. Vocalink subsidiary ZAPP (both, themselves 100% owned by the banks) actively establishing 'non-competitive bilateral deals' to provide this service in a way not offered to third parties	• Card payment market is captured by banks and some estimate 1% of GDP is "taxed" by payment system (Bank of France estimate). • Innovative models and businesses are stifled as banks can 'carve up' the market ahead of new payments regulator arrival (12-24 months away). • Economic inefficiency as costs for transactions higher.	• Bring payments regulator into being quicker or mandate access to FPS. Access to FPS infrastructure needs to be opened up to competitors on a fair basis similar to the telecoms regulation. • Mandate for a Better agency model with greater transparency and lower fees. Banks and payments regulator must deliver on their road map commitment on faster payment – FCA role? Can this be achieved this year ahead of formal inception of the regulator? • Banks embedded into regulatory decision making. FCA needs to reach out to broader constituency e.g innovative FinTech firms. Improving engagement mechanisms will challenge current regulatory capture. Could FCA 'practitioner panels' be more open? • Greater regard to article 58/59 provisions of PSD2 with regard to third party payment providers, or an undertaking of direct implementation of these provisions should the directive get through, or

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				support on the ECON committee with regards to A58/59 whilst the amendments are being debated.
2	Money Laundering Regulations and Interpretation	• Heavy fines from US regulators for money laundering (HSBC fined $1.9b) have led many banks to be far more cautious or withdraw from the money transfer / remittance market. • Banks are wary of inadvertently overlooking a 'dodgy transaction' and being heavily penalised. This has taken competition out of the money transfer market (it is served by just two banks) as small profit margins don't justify the risks. Feeling is that money transfer is being unfairly targeted. Laundering money is still possible via other routes. • Payments companies can assist with / help clarify the money flows, rather than being seen as part of the problem – assisting with the KYC (know your client) by seeing the history of their payments, etc.	• Uncompetitive risk-averse market leading to increased charges to transfer money. • Some new firms can't get "banked" which stifles innovation. • Reduces attractiveness of UK market for new firms that want to set up in the UK. • Development issue: Impact on NGOs trying to fund overseas projects and on families (diaspora) reliant on remittance payments [DFID are aware of this]	• Regulator to review competition in the sector. Although FCA will need to prioritise and therefore require evidence on the scale and impact of the issue. • Review the regulations and penalties so that they are proportionate and better targeted. • Look to overseas banks to come and serve UK clients if our own banks will not do it. • Representation to US authorities re retroactive legislation and lack of reciprocity?
3	Approval process for new banking licences.	• Incumbent banks have influence on approval process for new challenger banks as they appear to sit on the committees or are some way involved in the process that approves new licences.	• Barriers to entry for new banks that have an alternative business model that, in order to cement revenue and make operations more robust, may not initially focus on lending. • They are unlikely to get licences	• Greater flexibility and openness of approval process required. • More diversity and broader assessment criteria should be used to expand competition. The current criteria seem to exclude certain

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		• This leads to restrictions on new business models. UK norm of free personal bank accounts creates a barrier to entry to new banks.	approved.	business models thus making it harder for new entrants.
4	European Regulatory Structures	• The UK has the most liberal payments regime in the EU. • This should provide an opportunity to develop firms that can expand into other EU markets but regulators in other markets put up barriers. • This is either through gold-plating or skewed interpretation of regulations. Germany given as an example but similar problems encountered in Australia. • But good news that UK firms, carrying FCA accreditation, were generally accepted within Europe, and not vice versa. • NB gocardless felt the recent [SEPA] standardisation meant there were massive opportunities for UK firms in US, e.g. collecting all netflix monthly direct debits (charging 0.5%, rather than 2.5%)	• Constrains expansion into new markets e.g. German financial regulator requires financial firms to have a physical location. • This creates an un-level playing field and does not align with the way many "virtual" tech firms operate.	• Collaboration required with EU regulators. Challenge barriers at Commission level. • Look at modernising the regulation to allow "passporting" between EU member states.
5	Identity	• Current forms of identity assurance are antiquated e.g. use of utility bills etc. • This does not fit with the modern world and the e-economy.	• Makes it harder/costlier for small innovative firms to check identity and these systems are far from fool proof. • Payments companies could be part of the solution, not just be seen as the problem – for example, utilisation of	• Setting up of government issued online identity that can be used with the financial system, System based on NI or tax reference could be used [linked to the miData programme and what

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			payment credentials	organisations like Mydex are proposing]. • Explore with 'miicard'
6	VAT	• Treatment of some financial services firms as end consumers rather than business means they can't reclaim VAT • The only way to avoid the 20% charge this incurs is to structure the business in a more complex way to avoid VAT charges. • One organisation, which has 27% growth annually for last 2 years estimates this would have been between 50-60% if the VAT issue was addressed	• Adds 20% charge to purchases such as rent, office supplies, IT, marketing, which other businesses are able to claim back. • The alternative of creating a more complex business structure to avoid the VAT has additional legal and accountancy costs. • More complex business structures may encourage wider tax avoidance	• Engage HMRC/HMT to understand why VAT treatment for these firms is different. • Create exemptions to allow claim back of VAT.
7	FATCA Foreign Account Tax Compliance Act	• Firms need to report to US authorities all extra-territorial financial transactions carried out by US citizens. Failure to do so is a criminal offence. [ditto] • HMRC have an agreement with the US government to collate and provide this information	• Onerous requirement for business. • Creates a fear of indictment/extradition to US for an offence that is likely to be unwittingly committed. • This risk impacts on ability and appetite to do business in the US.	• Centralised data collection and delivery by HMRC to US. • Can this be an asymmetric regulatory issue be tackled as part of the TTIP negotiations

C. SME AND WORKING CAPITAL

	Topic	Detail of the barrier /challenges	Implications of the barriers for the Business [and UK PLC]	FinTech participants' suggestions for addressing the barriers
1	Bank legal agreements	• Banks require debentures from a company when making a secured loan (their loan is senior to all creditors). This is part of Companies House law. But it doesn't apply to individuals, so does it need to apply to small businesses taking only small loans (can see why needed for bigger loans, as bigger risk to the first lender)? • If alternative lender wants to lend to that company, bank must provide a waiver; process for requesting waiver is slow, differs by bank, often with no explanation in the event of rejection. • Significant break fees – can be as high as £100k or 10% of the facility • There is an industry code/agreement dating from the 1980s that sets out the process banks have to follow if a business wants to ask for another facility but despite this, banks often delay their answer. This is a huge switching barrier. • And in this window of delay, banks often aggressively cross-sell their products – competition issue. Some banks are slower than others e.g. RBS. one Entrepreneur had an example of it taking 18 months • Debentures stay in place even when a secured	• Existing process favours traditional lenders, restricting new entrants & potential pricing benefits for companies • Significant delays to companies wanting facilities from alternative providers • Companies can be fearful of asking Bank Relationship Managers for the waiver given existing credit held with Bank; leads to companies not exploring other credit options Anil Stocker from Market Invoice has provided detailed case studies of the following in a separate submission: - Impact banks use of debentures and refusal to grant a TCR [temporary and conditional release] impacts business use of alternative providers - Pre-existing creditors using debentures to aggressively cross-sell their own financial products - Barriers to switching between invoice finance providers – in this case insistence of 3 month notice period, refusal to remove debenture until; £30k balance had been paid in full, and a refusal by the bank to sign any release requests for new invoices	• Statutory process or stronger industry Code for debenture waiver , including a) time limit on response, b) a bank should not unreasonably reject request, c) if so, requires explanation, d) appeal mechanism with agreed criteria • There needs to be more regulation of break fees [statutory maximum fees to be in line with the foregone service fees plus an admin fee] • Appeal mechanism needs to be quick, cheap and minimise SME fears of harming relationship with their original lender(which might also have e.g. the mortgage on their house) • Automatic removal of debenture from companies house records [I think] when companies repay secured facilities • Appeal for independent review into bank practice and inertia: confident that 'shining a light' through an independent review would be

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		loan is repaid – the business has to know to ask the bank for it to be removed, and once they do ask it can take months to happen		sufficient to solve this important issue within months (reference a recent similar independent review of business loan appeals processes worked well)
2	Data access	• No access to bank/government company data, even with client consent, which can limit the pace / veracity of the on boarding risk assessment [whole point of an online provider is that they are meant to be quick in their decisioning]. • One obstacle in delivering a response is having access to a business bank account to see track record of inward and outward payments. Banks have access to this information and do not allow businesses to share this to a common digital standard • Banks have an unfair informational advantage over the new financial entrants in the market, who are not set up as banks and cannot offer business current accounts • A mixture of commercial interests / privacy fears / technological inability or it's a low priority for technology development in the banks (making an API is easy but bank systems are old and creaky)	• Slows down the application process and impacts level of analysis that alternative funding providers can undertake • Limits ability to transfer between providers • Increases expense for borrowers • Increases risk for alternative lenders • Potential for fraud • In more competitive banking markets such as Germany, firms can access electronic copies of their bank account data through common standards, which supports innovative third-party services and enables greater credit history portability (notably, in the UK just one-fifth of term lending to firms is by anyone but the main bank of the business, precisely because loan decisions rely heavily on bank account data which Banks keep proprietary). • The UK's 'big four' banks all have technology able to support small business customers securely accessing their own data, yet inertia	• Transactional bank data should be made available, with client consent. Banks should develop APIs that allow business clients to consent to share their banking information with third parties in a standard electronic format, allowing them to greater access to financial products and faster onboarding • Government should explore what data can be made available, with client consent (e.g. HMRC tax payments) • Compare with DTAUS (German electronic payment data standard) • There is also a US approach but it bypasses the banks and requires customer to give their bank details securely

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			means that these services are not made widely or easily available. • Also has implications for loan assessments. For Example, if small business X wants a loan to buy more stock, they can go to Funding Options [as an example]. FO will link to their accounting package and assess their risk in a granular way and in real time – so FO can present the risk accurately to partners, meaning a small business doesn't need e.g. 2 years accounts. Small businesses can therefore get cheaper finance options. But using the accounting package to assess the risk isn't as good at it would be if FO could access bank data.	
3	Regulation	• Invoice factoring / discounting is not regulated, but it's a £254bn industry and growing – so shouldn't it be? • Self-regulation via ABFA (Asset Based Finance Association) insufficient with key industry players not members and the existing level of "bad press" around the sector	• No price transparency for borrowers / can lead to high fees (6 main groups of charges, and up to c. 30 charges can be added – late payment fees, service charges etc) • Limits ability to switch between providers; contracts can include significant break fees e.g. 10% (whereas you can end your, say, mobile phone contract much more easily) • Emergence of potential unsavoury administration practices between 'related companies' (brokers / alternative lender / administrators) – see telegraph article:	• Greater regulatory oversight of the invoice finance industry by a neutral third party – FCA or OFT who should look at: regulatory standard for switching, collections processes, maximum fee breaks/contractual lock in periods • Independent guidelines for alternative lenders (vs. self-regulation) • Potential framework for transferring / switching between

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			http://www.telegraph.co.uk/finance/yourbusiness/9700866/Bibby-worker-offered-incentives-to-win-fees-from-failing-businesses.html • Non standardised "switching" procedures between providers	providers
4	Regulation / Bank process – referrals to alternative providers	• Limited referrals from banks to alternative providers; commercial interests and potential reputational risk of referring directly to alternative lenders • Top 6 banks received 5,500 appeals against rejections between March 2011 to March 2012, 60% of what they listened to through appeals process was not overturned • If banks do refer, this is usually done via brokers rather than bank directly referring to alternative finance options. However, brokers are not subject to FCA regulations e.g. 'Treating Customers Fairly' / 'Whole of market' advice / Visibility of Commission • Banks say they cannot refer business due to potential liabilities they would face should the referral not work out for the rejected applicant	• Limiting potential finance supply to companies • Lack of confidence in alternative lenders • Brokers' lending options to companies dictated by compensation, vs. best product (e.g. pricing)	• Accreditation of alternative lenders or some other way to make banks feel happier with referring businesses directly to alternative finance and strongly encourage banks to do so • Regulation of brokers by FCA (similar to Retail Distribution Review of Advisers), including declaration of commissions • Some clear process to ensure banks refer on applications they reject. This was raised in the 2010 Independent Annual Report of the Banking Taskforce [set up by the big 6 banks to help SMEs] • Could the FCA mandate a suitable and approved list [kite marked – ref PCI council] of alternative finance providers that bank relationship managers would have the authority to refer to? • Business Bank has a vitally

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				important role to play in ensuring that Britain's businesses know where to get finance
5	Access to finance	• For alternative lenders that use their own balance sheet access to funding from the private sector / institutional investors is prohibitively expensive. Cost of wholesale funding for smaller lenders is generally > 10% p.a. The Business Bank offers to match private sector funding (after a lengthy approval process) but it's not helpful to at these levels.	• There are 4.9 million companies in the UK and more than 4 million represent small and micro businesses. Banks have difficulties catering to them due to a) the diversity of micro businesses, b) the lack of audited management accounts and c) absence of assets that could act as security - a killer cocktail for banks. Alternative lenders are often focussed on niche sectors (that banks do not service) where an information advantage leads to better understanding of customers and hence responsible lending decisions. Alternative lenders have a limited ability to scale their loan book due as the prohibited funding costs that defeat the information advantage. iwoca is a perfect example for this.	• The business bank / government should offer direct support in the form of: - access to term funding in form of senior or mezzanine loan facilities at sub 5% coupon (i.e. not just matching private sector funding) - loan loss insurance schemes for alternative lenders like to enable us more risk taking / offer better and more competitively priced product / allow for new product launches - The European Investment Bank (EIB) offers this mainly for EU based micro lenders

D. BITCOIN AND VIRTUAL CURRENCY

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1	Regulation	• Not currently brought under any regulatory framework in the UK. • Whether that is business specific regulation, such as the regulation of the activities and conduct of BTC payment institution by the FCA, or generic regulation, such as the Supervision by HMRC of BTC payment businesses for AML purposes.	• This makes it very difficult for all Bitcoin businesses and merchants to do business. • The lack of regulation and continued uncertainty is the principal factor that leads to other issues around taxation, legitimacy and access to banking services	• HMRC to look again at whether they have made the correct assessment on classification of Bitcoin • HMT/BIS to consider what scope there is to amend Schedule 1 Part 1 of the PSR 2009 to include BTC exchanges as 'money remittance' services or fit it within another category. • Alternatively, check whether the FCA can review their Perimeter Guidance on Payment Services to see whether they can re-interpret the law to include BTC. The latter, of course, would minimise the need for primary legislation.

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2	Access to Banking	• UK banks do not provide accounts to Bitcoin businesses and associated Bitcoin businesses • AML/KYC – significant burden of proof on banks to protect against money laundering and meet regulatory requirements.	• This means major banks are unwilling to provide banking services for Bitcoin exchanges. Similarly, smaller/newer banks are reliant on larger banks for clearing services and are intrinsically linked in this way. • Although exchanges are able to find banking services abroad it would be preferable to use UK and is a lost opportunity for the UK • Banks are unwilling to provide banking services for Bitcoin exchanges. Similarly, smaller/newer banks are reliant on larger banks for clearing services and are intrinsically linked in this way. Although exchanges are able to find banking services abroad it would be preferable to use UK and is a lost opportunity for the UK	• In relation to banking issues, it is likely that some form of regulation of BTC business should, in principle, ease access to banking in the UK. That said, currently FCA authorised payment institutions have extreme difficulties obtaining bank accounts. • Participants suggested that HMT prompts the OFT to refer this issue of lack of banking access to the Competition Commission. • HMT/BIS to consider what scope there is to engage with FCA on changes to AML regulations
3	Taxation – lack of clarity on Bitcoin treatment	• No guidance provided on treatment of Bitcoin – It would be possible to issue guidance on how HMG was looking to treat Bitcoin. • HMRC currently classify Bitcoin as a 'single use voucher' with regard to VAT, which attendees believed was an incorrect assessment. • This means that given the definition HMRC has	• Would provide more certainty for participants in exchanges and banks in providing access to services. • Makes purchase of Bitcoins in the UK uncompetitive. Would lead to significant lack of liquidity on UK	• HMT/BIS to engage with FCA on whether any kind of interim guidance would be possible • HMT/BIS to engage with HMRC to open up discussion on the VAT treatment of Bitcoin Potential solutions discussed

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		provided, that VAT should be charged on the purchase of Bitcoins. • Some uncertainty around whether this was where VAT could be charged or whether it should only apply to commission charges from exchanges. • Lack of clarity on tax for personal income, personal BTC savings and investments, business income and people selling products in BTC.	exchanges. Has led to inconsistencies between Bitcoin exchanges and forex exchanges • Example provided by Bittylicious [through submission] - Because HMRC do not consider BitCoin a currency, any sales above the VAT threshold of just over £70,000 are VATtable, and there is no way to claim VAT back with this sort of technology. Ultimately, their margins are low (up to 5%) and charging 25% above the going Bitcoin rate makes the business not viable. • Thus, HMRC is driving my business out of this country. The Netherlands just happens to have a rule that fits BitCoin	include: • HMRC actually consider virtual currencies as real currencies. This removes all VAT implications, but brings in potentially tricky issues such as financial regulations. • HMRC allow the VAT margin rule to apply to virtual goods.
4	Lack of understanding and awareness in Government and agencies	Lack of understanding and awareness in Government of how virtual currencies works and what it is. Publications have appeared with erroneous information on implications for money laundering	• Has led to uncertain policy environment. UK will not be able to take advantages of the opportunities presented from virtual currencies whilst the regulatory/tax environment remains uncertain.	• Further engagement with sector and assessment of the economic impact and scope for alternative regulatory arrangements

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5	Scale of opportunities associated with Bitcoin	N/A	• SME could lower transaction costs by accepting payments in Bitcoin • Bitcoin related activities currently have a market cap of around £2bn, projected to be £20bn by 2014. UK has a unique opportunity to capture a lot of this market • Reducing friction of international business – low cost of remittance • Potential for vastly improved fraud and money laundering detection. Ability to identify 'black money' being channelled via Bitcoin	• Request that it is taken seriously by HMT/BIS

E. DATA AND BUSINESS INTELLIGENCE

	Topic	Detail of the barrier /challenges	Implications of the barriers for the Business [and UK PLC]	FinTech participants' suggestion for addressing the barriers
1	Open Data: Need to rapidly develop and communicate concept of individual ownership of data as an asset	• Individuals cannot access and use data about themselves to the degree they should be able to given technology available. There is a significant amount of unnecessary 'friction' in the ownership and transfer of data • This applies to data held by both (mostly large) companies and also by Government • Public Sector Data is considered to be a major immediate barrier to shifting attitudes here – often has the most significant data sets that can have the largest impact on how people live their lives	• Missed opportunities for intermediary businesses to use this data in a range of applications and the creation of an empowered asset class – opportunity for UK PLC to take the lead • Underpowered consumers (individuals and businesses) creates barriers to entry for new firms [i.e. PIMS – information service managers, third parties], less competition in the marketplace, no genuine choice	• Link to Government making small, considered steps on this to prove value of concept – example of the application of the "MyDex" [other vendors available…] proposition in the auto enrolment and automatic transfer of pensions as an individual changes employment [more detail on the nature of these propositions has been provided by David Alexander]
2	Open Data: Scale of the opportunity for Government and the pace of realisation	• Open Data needs to be given the backing that the scale of opportunity warrants • Mydex, one of the companies at the roundtable are considering the application of their "trust framework" and MyDex ID transfer across agencies/organisations under the control of the individual Applications being considered are: - Personal Tax Account - preparing a brief on this matter - Energy Company Obligation through simple sharing from DWP of a digital certificate via the individual - Digital evidence to support identity assurance and	• The size of the prize is significant if the cost-benefit analysis is ratified - both from a financial and quality of life point of view	• Recognise government as a major player in developing this market. Need to take the lead in making citizen's digital data stores available for personal "ownership" – for example, to organise, share, gain insights from • Exhorted to pursue just one of the applications referenced here to kick start the move • Government prioritise making attributable data available as needed

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		access to local government and NHS services via this same model - There is not a government process or transaction that involves the individual where this cannot help and transform the service. They are aiming for 45 and 80% transaction cost reduction, improved citizen experience and fraction of traditional costs to implement - It supports privacy by design and consumer empowerment and makes the implementation of things like AML / KYC vendor agnostic and digitises the process.		
3	Open Data: Sub optimal citizen experience	• Data protection rules means that huge amounts of useful data cannot be made available. Individuals and businesses have to repeatedly: - identify themselves to multiple parts of government, websites, banks, businesses. - agree to overly complex end user license agreements for a range of applications – many of which are not read or understood - many individuals cannot meet criteria for a bank due to a lack of credentials, which could be mitigated by an online data store of credentials, which help build up a financial footprint for verification	• Inefficient transactions with government and businesses e.g. 19m people on benefits cannot automatically prove that they qualify for lower energy tariffs • Trust cannot be transferred between parties – the exchange is too often one-way, with organisations holding the power • UK missing an opportunity to lead the way globally in application of breakthrough technology and development of the new asset class	• Action a version of the 'single license' so that individuals own their own data and are able to license it to companies to use. • This could mean a single end user license agreement for each individual.

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4	Open Data: government's role in breaking down barriers	• Government use of proprietary identifiers • Multiple "duplicate" identifiers for individuals used across government departments	• Because of licence restrictions, they inhibit many of the benefits of publication of open data, undermining interoperability and innovation and enforcing vendor lock-in	• Prohibition on government using proprietary identifiers • Move towards a single government identifier as per the Singapore model • UK should have a strategy for data issues but do not try to 'boil ocean' - incrementally improve what is possible prioritising first of all the utilisation of Public Sector data
5	Government consultation: General consultative approach favours the incumbents	• Government policy and regulation not as effective as it could be as the perceptions is that too many incumbents consulted and government's understanding of the 'burden' on businesses is sometimes underdeveloped • For example, removing requirements for certain pieces of information to be submitted to Government (Companies House) as part of Red Tape Challenge can increase the burden on businesses that would have benefitted from access to the data • Example for consideration: HMRC's consultation with the big 3 credit reference agencies [Experian, Equifax and Call Credit] about opening up VAT data to their potential advantage	• Lack of progression in policy making; too focussed on maintaining the status quo	• More engagement of challenger businesses.

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6	Open Standards: Application Programming Interfaces for Financial Services	• Lack of application of open standards such as APIs by banks –challenge that Banks may resist participation in projects such as the Open Bank Project , There is no encouragement/incentive for many firms and Government to make Banks use this tool, which potentially could transform the way in which a citizen interacts with their bank services and control their own financial data • Risk that banks will not make the data available to enable better bank switching unless they are incentivised or mandated to do so [in this case it is feasible that a third party "App" provider accessing API could eventually make recommendations on more suitable products from a competitor]	• Customers currently locked in to relationships with the data owners • Inefficient banking, less competition	• Application Programming Interfaces need to be standardised and adopted by the mainstream banks [so that banks can provide transaction data to interested parties] • Can more institutions be mandated to use open standards? • Make it easier to identify banks that will make this data available – so consumers can choose how it is used / outsource to a third party
7	Credit Applications and Scoring: Lack of transparency Risk in how the Credit Reference Agencies are allowed to operate	• This specific type of information, how credit scores are calculated, is not transparent, the data held is not clear to the customer and the process/algorithm is not well explained. • The legislation governing credit reference agencies in this country is out of date – a Data Protection Act from 1997 and a Consumer Credit Act from 1974 • Summer 2013, the EU issued new regulations to make it harder for credit ratings agencies to prey on member states – some consider it time they introduced regulations to stop smaller credit reference agencies 'preying' on ordinary citizens	• Businesses and individuals do not understand issues affecting their loan applications – and therefore cannot rectify them • Creates friction in credit application process	• Until an open source credit reference algorithm, Government should mandate that Banks make the credit rating process easier to understand • Make sure consumers can access their records for free (as they can in Canada. In UK there is a £2 fee), and upload reliable financial information such as salary and rent payment onto their credit ratings, too

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8	Market and flow of Company Data [Update since 29th Oct: from 01/11/13 for the first time the public have access to statutory accounts in data format – XBRL, which is now recommended form of submission – this is progress…]	*Accessibility:* Data collected on companies is not as accurate or accessible as it could be: - Subsidiary information is submitted to Companies House in the XBRL format is encouraged but not mandated so does not have 100% take-up [estimated that c60% file in XBRL - TBC] - There are significant inefficiencies for the remaining 40% of data which mean that citizens have to download accounts filings at £1 each from Companies House, and even then just get images that needed to be manually turned into data, or buy the data from one of the proprietary providers who would send of the filings to countries such as the Philippines or India for rekeying as data (adding costs and errors). *Timeliness of data* - Data is nowhere near timely enough– e.g. waivers granted to companies can mean that crucial data such as Director names can be 18-24 months out of date - Anecdotally, major companies were described as taking wavers on supplying data on their subsidiaries, and when the information is submitted it is not only out of date but often in a non-machine readable format *Completeness of data sets* - Many charities are exempted and so have no verification of their legal existence - Issue around the collection of companies data for micro businesses	• A missed opportunity. Many deals currently fail as a result of not having this data – rectifying it could benefit FinTech and analytical firms but also all businesses who want to analyse a potential/longstanding business relationship • There are example of FCA data sets being out of date – systemic risk implications • Basic principle needs to be recognised that if government is charging for data they are raising a barrier to entry into that market	• Companies House could be even more open – potentially mandate that records be received in XBRL for the remaining 40% of companies [could this be added onto one of the data bills due for consideration next year?] • Insist on more timely data for key pieces of information such as subsidiary creation, directors information • Key metric for Companies House should be the reuse of this data, not on whether it can make money by restricting access • The FED have a much more accurate data set on companies, which makes credit scores to understand systemic risk more accurate • New Zealand company register also held up as an exemplar – shareholder and director data available

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9	Market for Company Data "Each man should know with whom he is doing business [sic]" R.Lowe, Companies Act, 1856	- Sub-optimal markets and information flows concerning company data - Lack of "join up" in how the market for corporate data/information is being considered - Perception that no single actor is convening the right parties to answer the question, "How do we make the UK company data market the best quality in the world?"	• If the FCA, Companies House, LSE, PRA, and BIS were asked the question, "how many legal entities make up the FTSE 350?" it is unlikely they would be able to provide an accurate answer to this fundamental question • This has implications in terms of systemic risk, transparency for consumers, and probity of market	• Referenced a joint BIS/Cabinet Office seminar last year that started process of moving Companies House to become more of a "public register" • Potential to do something similar on this related subject. A route in to addressing the problem could be the "Beneficial Ownership" principle that the PM has supported as part of the OGP [not just about how NGOs want to use the data, but how would the broader market benefit from this] • Clarification on what the FCA are doing in relation to the Legal Entity Identifier – does this have the level of priority it should?