



Digital finance package

Digital finance strategy & legislative proposals

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Political context

- Europe's digital decade:
 - *“Europe must now lead the way on digital – or it will have to follow the way of others, who are setting these standards for us.”*
 - *“A real data economy, ..., would be a powerful engine for innovation and new jobs. We need common data spaces.”*
 - *“... the Commission will soon propose a secure European e-identity”*

Economic context – digital transformation

- **“Digitalisation”**
 - Changing social life & interactions
 - New revenue & value-producing opportunities
 - Changing business models
- **Pandemic → acceleration**
- **Policy questions**
 - Change how consumers and firms meet → impact on Single Market?
 - Changing finance fundamentally, bringing benefits & risks → EU financial regulation and supervision adequate?

EU digital finance strategy

1

Tackle fragmentation in the Digital Single Market

2

An EU regulatory framework facilitating digital innovation

3

Create a European financial data space

4

Address new challenges and risks

**Create opportunities for and protect consumers
Build an open, innovative and competitive digital market**

1. Tackling fragmentation in the digital single market

- Key action: enable EU-wide interoperable digital identities in finance:
 - **European Digital Identity Framework**, incl. digital ID wallet (2 June)
 - **Review of EU anti-money laundering rules**, incl. harmonised customer due diligence requirements (forthcoming)
- This will help European consumers to access cross-border services
- Will support European financial firms' scaling up their digital operations

2. An EU regulatory framework facilitating digital innovation

- New technologies have the potential to **improve financial services** for consumers and businesses
- Regulatory framework must ensure that technologies used **responsibly and in line with EU values**
- First manifestations
 - Proposals for regulations on **crypto assets** (September 2020)
 - Proposal for a regulation on **artificial intelligence** (June, 2021)

2(a) – Markets in crypto assets (MiCA)

Context:

- Distributed ledger technologies have huge potential in finance for consumers and businesses
- Many small projects to finance businesses and innovate in payments, but debate driven by Facebook's Libra stablecoin project

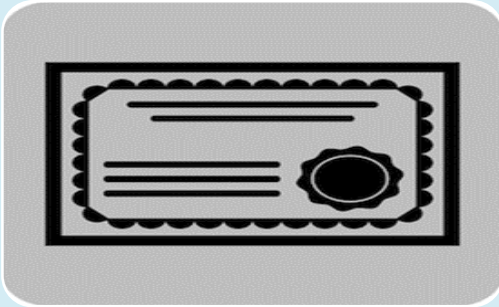
Objectives:

- Enabling innovation through legal certainty;
- Regulating risks for consumers and market integrity, and financial stability risks of global stable coins.

Envisaged approach:



2(a) – DLT Pilot regime



Shares

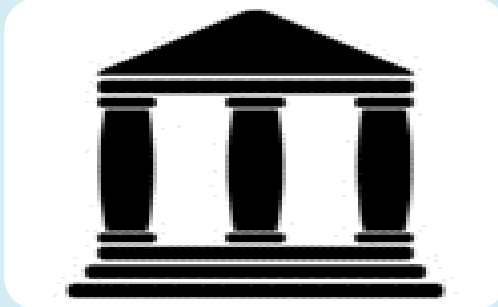
Issuer market cap < €200m

Bonds

Issuance size < €500m

Overall cap

Total value < €2.5bn



DLT MTF

MTF operated by market operator/investment firm; only admits DLT transferable securities

DLT SSS

SSS operated by a CSD; settles transactions in DLT transferable securities



Exemptions

CSDR (book-entry for MTF; outsourcing, participants, cash settlement and standard link/access for SSS)

New rules

Business plan/ documentation; DLT; transparency; cyber; safekeeping.



Permission

NCA; up to 6 years

Exemption

DLT MTF/SSS → NCA

Coordination

ESMA

2(b) – AI key principles

- Limited set of practices prohibited
- A number of use cases of AI which would be considered high risk and would be subject to requirements which are based on the work of the DG CNECT high level group on AI
 - transparency to consumers,
 - human oversight,
 - data accuracy, robustness and security,
 - documentation and record keeping

2(b) – How work for financial sector?

- 1 high risk use case: *“AI systems intended to be used to evaluate the creditworthiness of persons or establish their credit score, with the exception of AI systems developed by small scale users for their own use”*
- Entities not regulated and supervised under EU rules (for example credit bureaus), subject to full set of rules
- Credit institutions regulated by EU law the supervision of compliance would be integrated into our financial supervisory system

3. Create a European financial data space

- Single data space to **promote data-driven innovations** in the EU
- Also, to serve as part of the Commission's broader, **horizontal data strategy**
 - The broader policy objective being to create a ***“single market for data”***
- The **creation of innovative products** for consumers and businesses will be encouraged (“open finance”)
- Contributing to **facilitate access to data** needed to channel funding in support of sustainable investments

4. Address new challenges and risks

- **Cyber risks** become more apparent as digital finance grows – they must be addressed decisively [Digital Operational Resilience – DORA]
- **Technology companies** are of growing importance in finance as providers of technological frameworks and also financial services
- It is an increasing challenge for existing regulatory frameworks to safeguard **financial stability, consumer protection, market integrity, and fair competition**
- The principle “**same risk, same rules, same regulation**” must still apply to safeguard the **level playing field** between ‘old’ and ‘new’ market participants

Thank you



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