



Digital finance – policy priorities

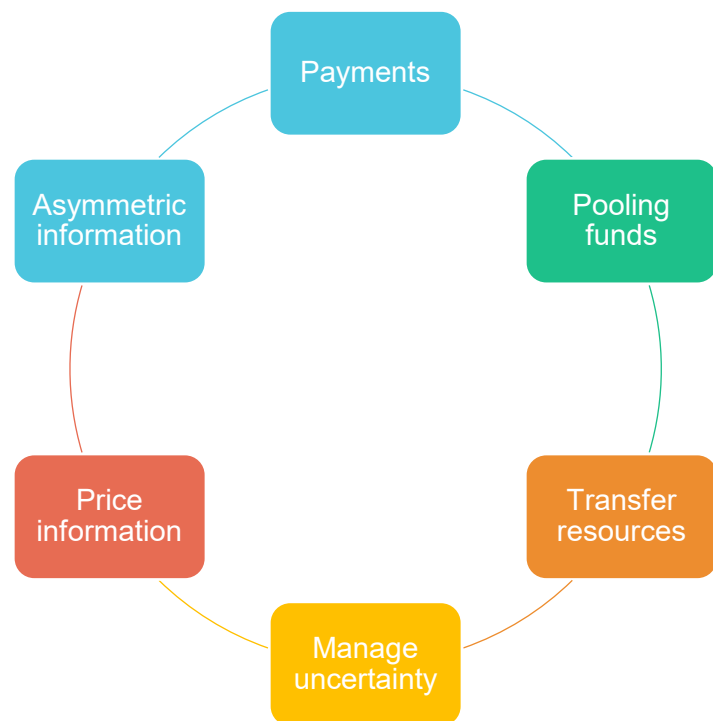
9th Fintech conference

University of Luxembourg, Faculty of law, economics and finance

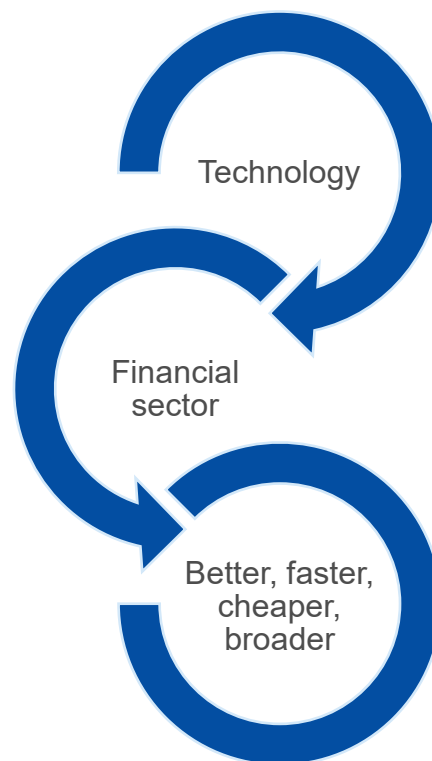
Mattias Levin,

Blurred lines...an evolving financial ecosystem

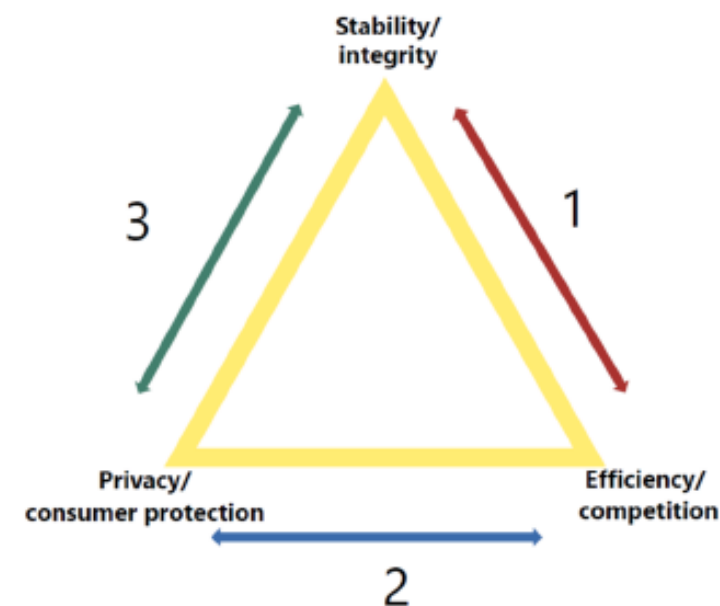
Core functions...



...evolving...



...leading to new policy trade-offs



Blurred lines...regulation and supervision

Regulation

- New assets, new products, new actors, new risks? → digital assets, data, AI, tech firms...
- Rules that accompany digital transformation, facilitate innovation while addressing risks

Supervision

- Landscape / ecosystem / value chains – diversity/efficiency vs. complexity
- Financial supervision as part of broader system oversight

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

Cross-cutting: create opportunities for and protect consumers

Overview

- Emergence of digital assets of private and public kind
 - MiCA & beyond; central bank digital currencies / digital euro
- Data as vital input in provision of financial services
 - Access – FIDA, Digital Finance Platform Data Hub
 - Analysis – artificial intelligence
- Financial sector ecosystem
 - Evolving value chains, entry new actors → regulatory perimeter?

Digital assets

Digital assets: MiCA & beyond



Level 2

- 4 COM delegated acts
- 26 RTS ; 9 ITS
- 11 ESA guidelines

Report latest developments

- DeFi
- Lending and borrowing
- NFTs

Report on application

- Quantitative information
- Overall assessment of the markets in crypto-assets
- Assessment on prudential requirements / level of protection / thresholds
- Environmental impact of new technologies

Digital assets – CBDC / digital euro

What?

- A **digital form** of the euro.
- Available to all individuals, businesses and public entities = a **retail** Central Bank Digital Currency (CBDC).
- A **liability of the ECB** distributed by financial intermediaries. Safe!
- **Complementary** to private means of payment and cash. Always a choice!
- Not programmable money!

Why?

- **Ensure that people continue to have access to a public form of money in the digital age, which is accessible and accepted everywhere in the euro area, at any time.**
- Match future users' needs as they evolve towards more innovative uses such as smart contracts and machine-to-machine payments.
- Promote innovation and competition in the retail payments market.
- Support financial and digital inclusion.
- Strengthen resilience and Europe's open strategic autonomy, and reinforce the international role of the euro.

Legal proposals

- Proposal establishing the **legal framework for a possible digital euro**
 - Regulates essential elements of the digital euro (e.g. legal tender, mandatory acceptance, users' rights and obligations...)
 - Ensures the applicability of Union rules to the digital euro
 - Embeds Union data protection law
- Proposal on the **legal tender of euro cash**
 - Safeguard the role of cash
 - Ensure it is widely accepted as a means of payment and remains easily accessible for people and businesses across the euro area

"Today's proposal will help frame the debate around what a digital euro is and the advantages of creating it. We are at the beginning of a long democratic process, one which will be done hand-in-hand with the European Parliament, Council – and of course, the European Central Bank, who will decide if and when to introduce the digital euro".

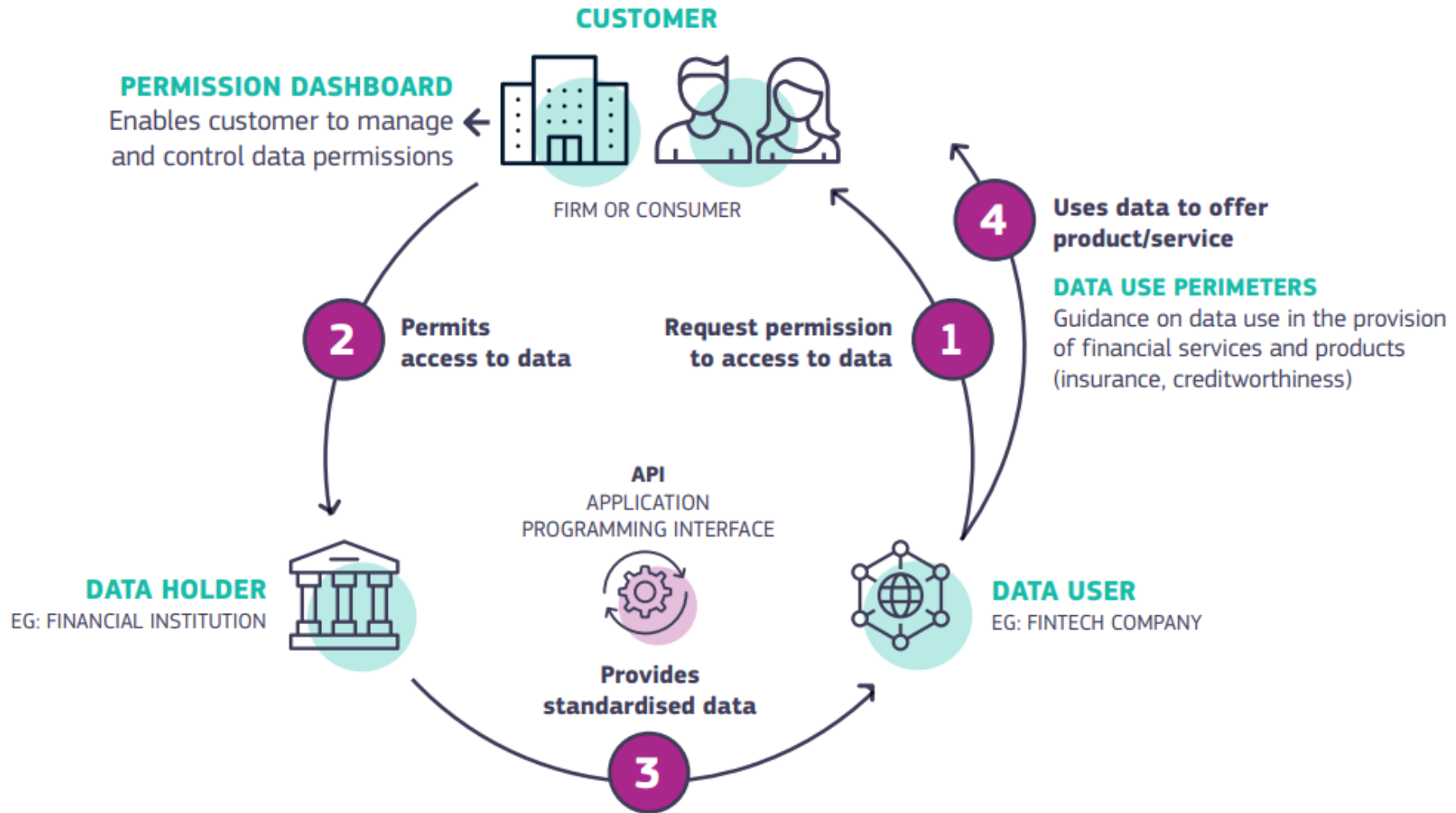
Commissioner Mairead McGuinness

Data

Data – policy rationale

- Data increasingly underpin financial services.
- Large scale data analysis will become the basis for providing tailored financial services.
- It is therefore essential that data is available, reliable and of good quality.
 - Promoting access to customer financial data – legislative proposal [FIDA]
 - Promoting access to synthetic data sets – Data Hub
 - Providing clarity about rules and supervisory expectations around AI

Data – Financial Data Access (FIDA)



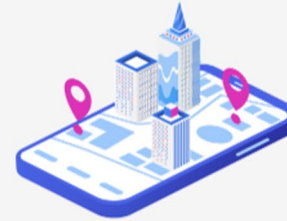
Data - digital finance platform



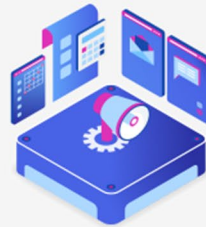
Data Hub



Cross-border services



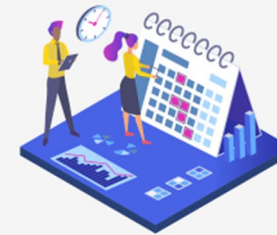
Fintech mapping



News



Call to action



Events

<https://digital-finance-platform.ec.europa.eu/>

Platform – data hub

- New project designed to give innovative financial firms access to **synthetic supervisory data** for the purposes of testing new products and training AI/ML models.
- Data Hub will serve as a point of intermediation and data exchange between **innovative firms, academics and researchers and national competent authorities** (NCAs).
- The objective is to create a space where innovative firms can **access data for testing / training / research purposes**.
- Complements national innovation hubs and regulatory sandboxes as well as cross-border testing.

AI - rapidly evolving

- General
 - Capabilities of AI systems have increased significantly recently.
 - Recent developments in AI (e.g., generative AI) also make it more flexible and reusable.
 - This makes it easier to apply it in more domains and tasks.
- Financial services – increasing use of AI
 - **Securities**: asset management (analysis, portfolio optimization) and trading (investment decision, trade execution, post-trade)...
 - **Insurance**: assessment of underwriting risks and pricing of premiums
 - **Banking**: AI used to e.g. detect fraud; assess creditworthiness and credit scoring; profile and cluster clients and transactions; assess AML risks; back-test regulatory credit risk models

AI – reap opportunities while addressing risks

- Increase use of AI creates **opportunities** (improved risk and fraud management processes, better base upon which to shape decisions...) and **risks** (poor or biased data leading to unintended bias and discrimination...)
- **AI Act** will provide a general framework governing the provision and use of AI to address risks to consumers.
- Use of **AI in finance** may give rise to questions that go beyond risks to consumers
 - Guidance – complement general regulatory framework with supplementary guidance setting out supervisory expectations for AI systems?

Ecosystem

Evolving ecosystem

- Increasing use of data and technology creates new value chains – sometimes more decentralised, sometimes more concentrated.
- Financial firms are working in an ever more symbiotic relationship with technology firms.
- How to ensure a sufficiently broad perimeter of financial regulation and supervision to protect financial stability and market integrity but also consumer protection?

Tech firms

- Technology is playing an increasingly important role in financial services. This brings new actors into the financial ecosystem. Today, these mainly provide the ICT upon which finance relies (e.g. cloud), not financial services.
- But, given developments elsewhere, tech firms may start to provide financial services on a material scale also in the EU
- Hence, increasing focus on mixed-activity groups (MAGs), i.e. groups that conduct both financial and non-financial services activities (e.g. bigtechs)
 - Boarder between technology and financial services? → perimeter financial regulation and supervision?
 - Dependencies between commercial and financial activities and related risks?
 - Tools to address risks to consumers, market integrity and financial stability?

Thank you



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