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Speech at Consob conference "The new frontiers of digital finance"

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Good morning, ladies, and gentlemen,

I am pleased to be speaking at today's conference on "The new Frontiers of Digital Finance".

And, I would like to thank CONSOB – and Carlo in particular - for giving me this opportunity to present the EU's agenda for digital finance.

The Digital Finance Agenda is one of the key elements on the Commission's financial services agenda. And it fits into a much broader Commission policy on digital transition alongside the green transition.

Unfortunately, I am not able to join you all physically in one of my favourite cities in the world. But, I hope that my virtual presence will be a reasonable second best.

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Why do we have an EU digital agenda?

The objective of the digital agenda is for the financial sector in the EU to embrace the wider digital transition in the economy - and ultimately become a global leader in the field.

Digital Finance promises many opportunities for the financial sector and, by extension, for business and consumers and the economy as a whole. Among those opportunities, I would include – in no particular order:

- fostering innovation in the financial sector, allowing the creation of better products that can be distributed more easily and more widely.

- facilitating access to the financial sector, including for those people who currently experience some degree of financial exclusion.

- providing new ways of channelling funds to EU businesses, in particular SMEs.

- supporting long-term economic growth and the broader transition to a more digitalised and sustainable development model.

- enhancing financial market integration across the EU and underpinning the Economic and Monetary Union.

- Strengthening the EU's open strategic autonomy and enhancing resilience in the financial sector.

It is because of these – among other - potential opportunities that the Commission proposed the EU Digital Finance Agenda in September 2020.

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So, what is the focus of the EU digital finance agenda?

The agenda has a twin focus - to foster innovation while at the same time managing any associated risks. The agenda can be best understood by pointing to four main priorities:

- The first priority is to **tackle fragmentation in the Digital Single Market** for financial services and so allow necessary scaling up; the EU has many impressive innovators in the digital field, but they very often lack the market size to exploit economies of scale and scope.

- A second priority is to **create a European financial data space** to further promote innovation. This fits neatly into the work of my colleagues here in Brussels in DG CNECT, who work on the much wider Data Act.

- A third priority is to **ensure that the EU regulatory framework accommodates the digital transformation process**. It is essential that our regulation is – as we say - technology neutral and so does not act as an impediment to necessary and desirable innovation.

- But, importantly, the fourth priority is to capture this necessary and desirable **innovation while also addressing the inevitable new challenges and risks associated with the digital transformation**.

  We know that financial services will progressively migrate to digital environments with fragmented ecosystems, comprising interconnected digital service providers. These providers could lie partially or fully outside financial regulation and supervision.

  In this way, digital finance may make it more challenging for the existing regulatory and supervisory frameworks to safeguard financial stability, consumer protection, market integrity, fair competition, and security.

To ensure that digital finance delivers better financial products for consumers and businesses - these risks must be addressed.

Beyond these four priorities, an overarching consideration of the Digital Finance Agenda is to preserve a level playing field across the financial sector.

We know that technology is contributing to a breaking up of previously integrated value chains for a given financial service. While most financial services have traditionally been offered by one provider, digital technologies have made it possible for firms to specialise in a particular leg in the value chain.

This increases competition and can improve efficiency. But, it could also makes value chains more complex and difficult to regulate. We must, therefore, pay particular attention to the principle "same risk, same rules, same regulation", not least to safeguard the level playing field between existing financial institutions and new market participants.

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So, let me turn now to the contents of the digital financial agenda.

The agenda is comprised of many elements, including two – by now well-known – pieces of legislation.

The first of these is the Regulation on Markets in Crypto Assets or MiCA.

MiCA is designed to accommodate innovation in the crypto sector, while ensuring a high level of consumer protection, assuring market integrity, and preserving financial stability. It will provide a clear legal framework in the EU, enabling further innovation on a safe and sound basis.

We proposed the MiCA framework because existing EU law did not adequately regulate these products. Regulators had fragmented information on these markets and there was no consumer protection.

The framework covers the issuance of crypto-assets, the requirements for crypto-asset service providers and the supervision of issuers and service providers. It also has specific rules in place for issuers of so-called ‘stablecoins’, as these have a higher likelihood of being used for payments and could therefore become systemic, requiring appropriate safeguards to be in place.

We are one of a very few large jurisdictions to have this kind of regulation in place. Japan also has such a framework, while China has chosen prohibition as their main response.

We are happy that we have moved ahead with our regulatory framework for crypto. But, we are very conscious that the crypto space cannot be regulated on a jurisdictional basis alone.

It is a global phenomenon and needs a global response. So, we very much welcome the importance being given to crypto regulation in the Financial Stability Board.

A second piece of legislation is the Digital Operational Resilience Act (DORA). DORA ensures that financial institutions have adequate safeguards against cyber-risks. I will not go into detail on this legislation today – beyond noting that the legislation responds to the emergence of cyber risk as the number one concern for many stakeholders in the financial sector.

Both of these pieces of legislation are already adopted by the Council and Parliament and will enter into application over the coming year.

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Perhaps, less well known, is the pilot proposal for Distributed Ledger Technology. This DLT Pilot seeks to promote the use of blockchain technology in existing financial-market infrastructures. It allows for targeted exemptions from existing rules, where they could pose technical obstacles to achieve the full benefits of using such technology

The pilot regime will allow market participants to safely experiment with DLT to issue, trade and settle securities. These experiences will inform future policymaking and could potentially lead to more wide-ranging changes in the future.

The DLT pilot is a first of its kind in the EU and will put us at the forefront of innovation. It will apply as of 23 March this year.

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And there are more legislative measures in the pipeline.

For example, we have already on the table a new legislative proposal on instant payments.

Instant payments allow greater competition in the EU payments market, which can expand choice, increase resilience, and strengthen the international role of the euro.

The EU was once the outright leader in instant payments, but we are now lagging other jurisdictions around the world. Having made great progress initially, the availability of instant payments across the EU has stalled.

The failure of some payment services providers to take the necessary steps to offer and receive instant payments has meant that the full network effects cannot be exploited. So, we are giving the process a “regulatory nudge”.

To help accelerate the roll-out of instant payments across the EU, the Commission has presented a legislative proposal on this key topic. The proposal is now under negotiation by the Council and Parliament.

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At the end of last year, the Commission set out the way forward for an open finance framework. This framework will be based on the much broader Data Act (proposed by DG CNECT) and will be inspired by our experience of open banking following a review of the second Payment Services Directive (PSD2).

The Open finance framework is a key part of the European Financial Data Space that we are building.

Our vision for open finance is to give back control to the users of financial services, be it consumers or firms, when it comes to the way their data are used and who can access them.

In this way, we believe that the open finance framework will change the user experience in financial services for the better.

This framework will allow for better, more conscious use of data across the European Union. The goal is to put rules for open finance in place by 2024.

Needless to say, the approach must be in full compliance with the General Data Protection Regulation (GDPR). Customer consent for any use of their data has to be meaningful. In other words, consent must be sufficiently specific in terms of scope and the validity period, so that it is easy for customers to grasp the full implications of giving such consent.

If customers wish so, access to and re-use of their data could give them a number of new opportunities. Here, I would include:

- personal management tools, which would offer customers greater control over their finances.

- if financial advisors have better access to data, this could help them to give more targeted advice for clients.

- various data sources can help improve access to finance for SMEs.

- ESG data can be used to better assess the ESG profile of an investment.

But we need to go step by step. We have already asked experts from consumer associations, academia, and industry to look at specific use cases. And we will shortly publish consultations on the PSD2 and on open finance.

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Finally, the Commission is working at technical level with the European Central Bank exploring the possible introduction of a digital euro. Here, the objective will be to provide businesses and citizens with more innovative, competitive means of making their daily payments.

While the decision to launch a digital euro lies uniquely with the ECB, that decision can only be put into effect if there is an adequate legal framework. The Commission will be responsible for proposing that framework.

In preparing the legal framework for a digital euro, we held a targeted consultation during the summer of 2022. Since September 2022, we have had regular expert group meetings with Member States, where we discuss all relevant topics related to the regulation of a digital euro.

Key topics to be covered by the Regulation include: legal tender, distribution model, privacy and anti-money laundering / countering the financing of terrorism (AML/CFT) aspects, financial stability aspects, international use.

Now we are in the process of preparing the first draft of a Regulation. We continue consulting the Member States as part of an expert group and in the Eurogroup. The draft Regulation is planned for adoption by the Commission in Q2 2023.

Closing remarks

So, as you can see, the EU digital finance agenda is rather expansive, and the various elements are gradually coming into place.

The agenda reflects a conviction that the EU can and should play a leading role in steering the future of digital finance.

The Commission is determined to work towards the goals it has set for itself in the Digital Finance Agenda.

But, of course, we will need to collaborate with many stakeholders – many of whom are represented in this conference today.

For that reason, I am even more regretful that I cannot be with you in person and have the opportunity to hear the views of my fellow panellists. But, I will read the report of the conference with great interest.

Thanks to you all for your attention.