

Regulating digital finance

The use of new technologies to enable and enhance the activities of the financial sector has the potential to provide significant benefits, including efficiency gains, cost reductions, improved data management and transparency. At the same time, it entails risks in fields such as financial stability, financial crime and consumer protection. These risks may further increase due to the fragmented regulatory landscape in the EU, and uneven global developments in regulating the sector. There is therefore a need for the EU to create a comprehensive and stable regulatory framework in this area. Parliament is expected to debate a legislative-initiative report with recommendations to the European Commission to act in this area during its October I plenary session.

Background

The digital finance (or [Fintech](#)) sector encompasses firms that use technology-based systems either to provide financial services and products directly, or to make the financial system more efficient. Digital finance is a rapidly growing sector, which can potentially bring advantages associated with innovation to the financial sector and create jobs. Nevertheless, it can also bring challenges to financial stability, be misused by financial criminals or undermine consumer protection. These risks may be further amplified by the currently fragmented European Fintech landscape and by uneven developments at global level.

European Parliament's legislative initiative

On 10 September 2020, Parliament's Committee on Economic and Monetary Affairs (ECON) adopted a legislative-initiative [report](#) with recommendations to the European Commission ([Rule 47](#) of the Rules of Procedure) on digital finance (emerging risks in crypto-assets, regulatory and supervisory challenges in the area of financial services, institutions and markets).

It calls on the Commission to put forward a legislative proposal for **crypto-assets**, i.e. digital assets that depend primarily on cryptography and distributed ledger technology. It notes that the proposal should be under-pinned by a comprehensive crypto-asset taxonomy for the whole EU. The proposal should address existing regulatory gaps in EU legislation, provide adequate supervision and prudential treatment of crypto-assets, create a bespoke regime for new activities in that sector and address the environmental impact of activities associated with crypto-assets. The resulting framework should provide legal certainty, while ensuring consumer and investor protection. On **cyber-resilience**, the report calls on the Commission to propose legislative changes in the area of information and communications technologies (ICT) and cybersecurity requirements for the Union financial sector, to increase its cyber-resilience. Such a framework should modernise relevant existing rules, as well as close any regulatory loopholes and gaps, focusing especially on the modernisation of ICT governance, the alignment of reporting rules for ICT incidents, the creation of a common framework for penetration and operational resilience testing, as well as oversight and minimum standards for critical ICT third-party providers. In this context, the report envisages the Commission undertaking a supervisory overview of ICT providers in the area of financial services, as reliance on a small number of such providers can create concentration and contagion risks. Lastly, among recommendations aimed at improving **data management**, the report proposes a framework for digital 'onboarding' (the opening of new accounts digitally). Such a framework should comply with relevant EU legislation (such as anti-money-laundering regulations, data protection and privacy norms) and aim to ensure a common understanding of digital financial identities across the single market.

Legislative-initiative report: [2020/2034 \(INL\)](#); Committee responsible: ECON; Rapporteur: Ondřej Kovařík (Renew Europe, Czechia).

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