Economic and Monetary Affairs MEPs agreed on a pilot regime for DLT

MEPs want to protect investors and financial stability while approving pilot to help with the uptake of transformative technologies in the financial sector.

The report adopted on Tuesday with 47 votes to 4 and 8 abstentions gives a green light from the Economic and Monetary Affairs Committee for a temporary common EU pilot regime for financial services based on distributed ledger technology (DLT).

The project follows a ‘sandbox’ approach, allowing for temporary derogations from certain requirements under the EU financial services legislation. The experience gained through the pilot regime should help to identify possible practical proposals for suitable new rules on trading and settlement of transactions in financial instruments based on DLT.

Eligible financial instruments

MEPs decided to foster innovation and experimentation while preserving financial stability, voting to ensure financial instruments services by DLT market should be limited and subject to the following value thresholds.

- Shares (limit: market capitalisation of less than EUR 200 million)
- Bonds including sovereign bonds (limit: issuance size of less than EUR 500 million)
- Exchange-traded funds (ETFs) (limit: issuance size of less than EUR 500 million)
- Units of collective investment undertakings (UCITS) (limit: issuance size of less than EUR 500 million)

Additionally, operators of DLT can admit new financial instruments only until their total market value reaches EUR 5 billion.

Investor protection and role of ESMA

MEPs want DLT market infrastructures and their operators to have in place adequate safeguards to ensure the effective protection of investors related to the use of DLT, including clearly defined lines of liability to clients for any losses due to operational failures. To allow for competition, while preserving a level playing field and high standards of investor protection, as well as financial stability, new entrants should be able to access the pilot regime provided they ensure compliance with the same requirements as authorised investment firms or market
operators.

ESMA should have a direct supervisory mandate for granting permissions and exemptions to a DLT market infrastructure across the EU, after consulting national competent authorities. During the lifecycle of the DLT pilot regime, ESMA should publish annual interim reports about the most important trends, risks, and vulnerabilities. The first report should be published after the first year, and the final report after five years.

Quote

"By making it possible to use a decentralised database (DLT) when trading financial instruments, we take the next step towards innovation of the market. The report focuses on guarantees for financial stability, a level playing field, and protection for investors. Furthermore, it can help to curb unnecessary red tape", said the lead MEP Johan Van Overtveldt (ECR, BE).

Background

The European Commission's Digital Finance Strategy aims to ensure that the Union financial services legislation is fit for the digital age. The EU has a policy interest in exploring, developing and promoting the uptake of transformative technologies in the financial sector, such as blockchain, or other forms of DLT. DLT comprises a diverse set of solutions that combine database technology and cryptography, allowing for decentralised storage of information in a secure and accurate manner.

Further information

Procedure file
Committee on Economic and Monetary Affairs

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