This new section of eurofenix will bring you the most relevant news in the field of insolvency tech and digital assets. To contribute an article to a future edition, please send your proposal to: *insolvencytech@insol-europe.org* or the individual Chairs:
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Digital finance and crypto assets news from Brussels

Innovations and opportunities of the digital revolution resulting from the coronavirus pandemic

> *The European Commission has expedited its efforts and proposed a digital finance strategy for the European Union*

The overall use of financial applications in Europe has increased by almost a double in one week when the pandemic started.

Digital finance tools have helped across all sectors to tackle the crisis created by the pandemic. Moreover, you can open a bank account without visiting the physical branch and payments for purchases have moved to the digital spheres or became wireless.

The decision-makers in Brussels at the European Commission have understood that the impacts of the lockdowns and the various restrictions are boosting the courage of business and consumers to use digital versions of almost every aspect of daily life. As a consequence, the European Commission has expedited its efforts and proposed a digital finance strategy for the European Union. The wrap up of the key points is the aim of this article.

Trendy innovations in the digital world push for changes

Digital data and IT infrastructure have become key factors for development in digital finance. Data and infrastructure exist in the cloud, thus being flexible and available, but vulnerable to data protection leaks or attacks at the same time.

Speed of innovation in digital finance has become even more a factor. Life cycles of products and solutions get shorter and shorter. Sometimes, at the moment we finally adjust to the most recent version of the internet banking app, a major update of the same app with a new usability concept is being released.

Embrace, drive, make available and promote...

The EU Commission envisages to embrace the trendy innovations and the opportunities of the digital revolution, to drive the digital finance with strong European market leaders, to make its benefits available to customers and businesses and to promote it in line with EU values and under proper risks regulation.

Embracing digital finance will boost financial products innovation and development, thus making funding to businesses more available. Another positive impact of embracing digital finance is the support of the post-pandemic economic recovery, mobilising funding in connection with the EU's Green Deal and the New Industrial Strategy. An open strategic autonomy in financial services will be reinforced by a strong and dynamic digital financial sector. Lastly, the EU's Economic and Monetary Union will benefit from an enhanced financial markets integration in the Banking and Capital Markets Union.

It comes to four priorities

Based on the positive voice collected in the public consultation for the discussed digital transformation strategy, the EU will pursue four priorities:

1. Financial services Digital Single Market must undergo de-fragmentation. In this way consumers will access cross-border services more easily. Another important point under the first priority is to simplify cross-border scale-up of the financial businesses' digital operations.

In order to achieve the mentioned targets, the EU committed itself to implement a legal framework for an **interoperable digital identity** offering new customers a non-complicated access to financial services by 2024. It goes without saying the AML and counter-terrorism financing rules need to be more harmonised, while the new rules will benefit from an updated e-IDAS regulation. Three steps need to be accomplished in order to succeed.

Firstly, the manner and extent to which financial service providers may rely on "*know your client*" (KYC) procedures carried out by third parties must be evaluated. The European Banking Authority and other European Supervisory Authorities will introduce guidelines on this topic. The European Data Protection Board will be involved in reviewing those guidelines for data protection aspects.

Secondly, the Commission will define and harmonise KYC requirements thus removing different processes and compliance obligations across different Member States. A part of the new rules will define which ID documents will be necessary and which technology can be used for a person's identity verification purposes to achieve seamless cross-border operation.

Thirdly, the e-IDAS regulation's application should be extended to the private sector and promote trusted digital identity's for all EU citizens. (*Finally!!*)

The so called **'passporting'**, which should be introduced also by 2024, will enable consumers and businesses to have access to cross-border services provided by another Member State's established and supervised digital finance firms. As an example, under the Crowdfunding Regulation, passporting will be introduced for various crowdfunding services, while the crypto-assets rules currently proposed by the Commission should enable passporting for crypto-assets issuers and service providers.

2. A corresponding regulatory framework should facilitate distributed ledger technology or artificial intelligence innovations for consumers and businesses.

The upsides of crypto-assets and blockchains are obvious: cheap and fast payments in cross-border and international transactions, new funding possibilities, more efficient capital markets. Therefore, the Commission has presented a legislative proposal for a **Regulation on Markets in Crypto-assets** and a **Regulation on a Pilot Regime for market infrastructures based on distributed ledger technology**. If everything goes as planned, by 2024 these new laws will be effective.

The Commission is proposing an oversight framework for critical third party ICT providers to the financial sector, such as cloud service providers, and the launch of a European cloud services marketplace which will facilitate access to alternative cloud service providers, including the financial sector. In the future cloud services could be certified by the EU cybersecurity agency in line with the Cybersecurity act, in order to increase trust in cloud use not only by financial services and regulators.

Another challenge is the use of artificial intelligence applications in finance. The Commission in cooperation with the European supervisory authorities and the European Central Bank will explore options of developing regulatory and supervisory guidance on the use of AI in the digital finance sector. The ultimate aim will be ensuring clarity on supervisory expectations and mitigation of risks, so that AI-based solutions can be applied in the EU safely, soundly and ethically.

3. Open data and data sharing across and within sectors while observing data protection compliance and competition rules are behind the priority to create a common European financial data space. Enhanced data sharing rules within the financial sector cause financial firms publish comprehensive financial and non-financial information on their operations and products.

A new strategy for reporting and supervision should soon impose rules on supervisory reporting requirements including definitions, formats and processes, which will be not vague, but aligned, harmonised and automated-reporting suitable. The structure of the reports will be in machine-readable electronic formats and easy to process and combine.

"Open finance", the use and sharing of customer data by banks and third party providers to create new services, which has been enabled under the revised Payment Services Directive, supports better financial products, better targeted advice, and greater efficiency in B2B transactions. Next year the Commission will come up with a legislation proposal on a more open finance framework.

4. Priority number four is about addressing new risks and challenges coming along with digital transformation. The "same activity, same risk, same rules" principle of the Commission will maintain the rules amongst new market participants and existing financial institutions.

Stakeholders expect that by bundling and scaling up solutions, large technology companies will become a part of the financial services ecosystem. Naturally, risks will evolve, affecting the global financial stability, the competition in financial services markets, and customers. As a consequence, the Payment Services Directive[1] and the E-Money Directive[2] will be reviewed and further legislative initiatives will be introduced in order to address potential risks stemming from large financial services operations. Consumers will benefit from improved protection under the revised legislative framework.

Conclusion

To conclude, the reader may have the impression that within three years, the driving force of innovation and legislative update triggered by the corona virus crisis will create a more modern, flexible, and safer world of digital finance. We hope that the positive approach and enthusiasm of the Brussels officials will persist, even if they will have to work from home offices for several more months and maybe years. Who knows?

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Footnotes:

1 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015L2366)

2 Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32009L011)