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A digital Capital Markets Union

Digitalisation, new technologies and innovative business models hold great potential to support the objectives of the Capital Markets Union (CMU) by increasing efficiency, transparency and cross-border provision of services. The COVID-19 crisis shows that digitalisation may also be a safety net against operational risks, thus improving market resilience. The European Commission (EC) is thus taking the necessary steps to ensure the right conditions are in place to take advantage of and manage any risks stemming from digitalisation.

That is why digital finance has become a resounding public policy topic, as also reflected in discussions of the CMU High Level Forum (HLF) set up by the EC to identify and propose new targeted actions to further develop the CMU. Whilst it is too early to discuss the outcomes, these recommendations, including ideas on how digitalisation supports the CMU objectives, will be published later this year and will feed into the Commission Action Plan on Capital Markets Union. In parallel, the EC is working towards a broader new Digital Finance Strategy promoting digital finance in the EU while adequately addressing possible risks. A digital finance public consultation was launched in April 2020.

Distributed ledger technologies/blockchain may improve efficiency in trading and post trading, reduce costs and make it easier to raise financing on public markets via Security Token Offerings and DLT bond issuances. In December 2019, the EC launched a public consultation on crypto-assets to assess if the existing EU legislation should be adapted for the issuance, trading, clearing and settlement of crypto-assets and how to ensure a level playing field between security tokens and other financial instruments. A legislative proposal covering all crypto-assets is expected in Q3 2020.

Recent EU policy initiatives recognise the importance of data-driven innovation and data flows such as GDPR's right to data portability and PSD2's Open Banking provisions. CMU objectives, in particular retail investor participation in capital markets, may also be further advanced through open finance. If broadened to include other types of financial data, open finance could benefit consumers by enabling the creation of new business models which would equip them with better tools to manage their finances and investments as well as foster competition between service providers. In February 2020 the EC adopted a Digital Strategy to enhance access and sharing of data within the EU. This horizontal framework will be

complemented by a sectorial framework for the financial sector.

Financial institutions increasingly rely on third party providers of IT services, and in particular cloud services. While these solutions bring opportunities, they also expose the financial sector to operational risks and potentially systemic risks which need to be mitigated. The EC recently launched a consultation on digital operational resilience. A cross-sectoral act is expected in Q3 2020, harmonising rules across the EU to make the financial sector more secure and resilient.

By improving access to finance for innovative companies, the CMU will deliver on its objective of supporting growth and innovation in Europe, and in turn further advance the digital transformation. ●