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The next five years – Europe to outline its blueprint for future generations

Europe's plans for open strategic autonomy include several priorities designed to strengthen the financial sector. Central to this is promoting the euro and fostering its status as an international reference currency.

Legislative choices will greatly influence to what extent the European Commission (EC) will be successful in delivering strategic autonomy. The various legislation covers a digital euro, data protection/localisation, onshoring of euro related investment banking services, but also Basel implementation.

The right choices need to be made if European policymakers expect banks to play their part in financing the European economy. Especially against the background of the post-pandemic economic recovery and the fact that it will still need time to develop any meaningful European capital market to fall back on.

In September 2020, the EC set out its digital finance strategy, outlining how Europe can support the digital transformation of finance while regulating its risks. While this should provide opportunities for banks and their clients via better use of data, the focus on crypto-assets and issuance of a digital euro, it also entails clear risks.

Crypto-assets as a means of payment and exchange of value will play an increasingly important role in the financing of the EU economy. As the digital agenda of the EU economy progresses, an increasing number of industry processes will be based on blockchain/DLT e.g. pay-by-use concepts and machine-to-machine payments. This creates a demand for compatible payment solutions and the financial industry is shaping its digital strategy accordingly.

A strong and robust EU regulatory regime for crypto-assets is essential to ensure that this technology supports a competitive, financial and economic ecosystem that protects consumers, investors and businesses. This should be based on the "same risk – same rules"- approach by relying on existing regulations, adapting these or, where necessary, introducing new rules that address the novel nature of crypto-assets while retaining financial stability.

The digital finance strategy includes many concepts which are new to policymakers and do not fit into the traditional financial regulatory architecture. This might lead to an overly conservative framework, especially for banks. Linked to the push on European sovereignty, a likely reaction is to close the European market for outside stakeholders and focus on data localisation. Closing markets has however never led to better client services.

For the financial industry, crypto-assets have the potential to feature many of the elements needed in a digital and globalized financial market place e.g. real-time finality of transactions or frictionless cross-border availability. But further institutionalization is needed: the establishment of a regulatory foundation followed by at-scale participation of key members of the regulated financial ecosystem.

While Europe should focus on embracing new technologies as part of its goal of strategic autonomy, it is clear to us that this should be paired with remaining open, as many of the new policy developments have cross-border impacts.