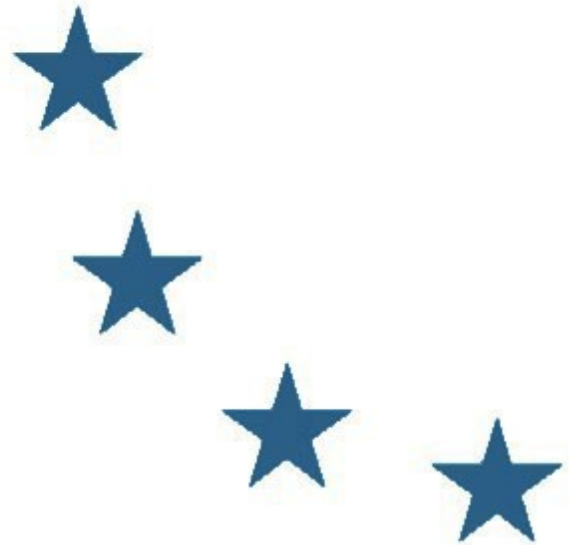


# Shaping landscape of the EU retail financial services in view of digitalization



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CENTRO DI ECCELLENZA ALTIERO SPINELLI

***Shaping landscape of the EU retail financial services in view of digitalization***

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**Abstract**

This paper provides an overview of recent European policies concerning retail financial services and describes the impact of digital technology in this sector.

More specifically, after examining the most relevant European acts adopted since December 2015 until now, the paper focuses on analyzing two main issues: on the one hand, the lending or loan-based crowdfunding activities, on the other, the European blockchain initiatives.

The word ‘FinTech’ is here used to refer in general to finance enabled by new technologies, in order to cover the whole range of financial services, products and infrastructure.

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<sup>1</sup> Views, thoughts, and opinions expressed in the text belong solely to the author.

## 1. The Digitalization of the Retail Financial Sector

The Treaty on the Functioning of the European Union (TFEU) guarantees the free movement of goods, capital, services, and people, offering considerable opportunities for the European Union's citizens.<sup>2</sup>

Retail finance provides a number of vital services for citizens, such as, for example, to keep and save money, pay for a house or other purchases, insure ourselves or our property against health problems or accidents.

It follows that realizing effective Europe-wide markets for these services will widen and improve consumers capacity to make their choices. Furthermore, it will allow successful providers to offer their services throughout the Union and encouraging new entrants and the innovation process.

To this regard, in December 2015 the European Commission launched a public consultation on how to look at financial services from the European consumers point of view so as to increase competition, transparency and choice.<sup>3</sup>

Initially announced in the Capital Markets Union Action Plan<sup>4</sup>, the consultation follows several previous initiatives in this field, including:

- the Credit Consumer Directive, which facilitates the emergence of a well-functioning internal market in consumer credit;<sup>5</sup>
- the Payment Accounts Directive, which improves the transparency of bank account fees and make it simpler to switch accounts from one bank to another;<sup>6</sup>
- the Mortgage Credit Directive, to make responsible and professional mortgage lending the standard across Europe;<sup>7</sup>
- the Commission's Digital Single Market Strategy, to boost access to digital products and services;<sup>8</sup>
- the Commission's Single Market Strategy, to reduce barriers and prevent discrimination within the single market;<sup>9</sup>

<sup>2</sup> Pursuant to Article 56 (2) TFEU "*Within the framework of the provisions set out below, restrictions on freedom to provide services within the Union shall be prohibited in respect of nationals of Member States who are established in a Member State other than that of the person for whom the services are intended.*"

<sup>3</sup> COM (2015) 630 final - Green paper on retail financial services - Better products, more choice, and greater opportunities for consumers and businesses, 10.12.2015.

<sup>4</sup> COM (2015) 468 final - Action Plan on Building a Capital Markets Union, 30.09.2015.

<sup>5</sup> Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC.

<sup>6</sup> Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts.

<sup>7</sup> Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010.

<sup>8</sup> COM(2015) 192 final - A Digital Single Market Strategy for Europe, 06.05.2015.

<sup>9</sup> COM(2015) 550 final - Upgrading the Single Market: more opportunities for people and business, 28.10.2015.

- the Anti Money Laundering Directive, to protect society from crime and assure the stability and integrity of the Union's financial system;<sup>10</sup>
- the Payment Services Directive, to support the growth of the Union economy and to ensure that consumers, merchants and companies enjoy choice and transparency of payment services to fully benefit from the internal market;<sup>11</sup>
- the Insurance Distribution Directive, which lays down rules concerning the taking-up and pursuit of the activities of insurance and reinsurance distribution in the Union.<sup>12</sup>

The public consultation considers that the digitalization – as a matter of fact, the development of new business models and services through technology - of retail financial services is happening and progressing quickly.

In other terms, more and more consumers get insurance, organize loans, transfer money or open bank accounts by using online or digital services which present rewards and challenges and are increasingly captivating political and social attention.

Firstly, digitalization makes information easily available to potential consumers, becoming less relevant the physical location of the contracting parties.

Secondly, it can help to diminish prices and increase the comparability of products, empowering consumers in their financial choices.

Lastly, in the long term, digitalization could allow firms to provide their products and services anywhere in the European Union.

These are the main topics and objectives put forward by the European Commission in the above mention consultation document that will be hereinafter described more in details.

## **2. The Green Paper on Retail Financial Services**

As just said, on 10<sup>th</sup> December 2015, the European Commission launched a public consultation on the basis of the Green Paper on retail financial services.<sup>13</sup>

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<sup>10</sup> Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC. See also Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

<sup>11</sup> 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.

<sup>12</sup> Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

<sup>13</sup> The text is available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0630&from=EN>.

The purpose of the Green Paper was to consult all interested parties on how the European market for retail financial services – namely insurance, loans, payments, current and savings accounts and other retail investments – could be further opened up.

The scope was double, on the one side, bringing better results for consumers and firms, on the other side, maintaining a proper level of consumer and investor protection.

Moreover, it tried to identify the specific barriers that consumers and firms face in using the Single Market and ways in which those barriers could be overcome, including best use of new technology.<sup>14</sup>

The main target of the Green Paper was to determine ways of making easier:

- for companies based in one Member State to offer retail financial services in other Member States;
- for consumers to access retail financial services offered in other Member States; and
- for consumers moving from one Member State to another, whether to study, work or retire, to take their financial service products with them.

The consultation document included a vast block of questions addressing possible opportunities and challenges arising from digitalization.

The Green Paper received 428 contributions from a wide range of stakeholders and it made clear that the barriers to the functioning of the Single Market affect both consumers and providers.

The responses can be summarized as follows.<sup>15</sup>

When asked whether digitalization has the potential to help overcoming cross-border barriers, the majority of respondents saw great benefits, such as more targeted consumer information, substantial cost reductions for firms, allowing customer identification at a distance and easier access to redress mechanisms.

Incumbents, for example banks, asked for a level playing field with Fintech companies - considered non-traditional actors - as far as consumer protection standards, cyber security, and accessibility of social media data are concerned.

Although consumers and suppliers broadly agreed on the benefits that digitalization can generate, they also listed a number of challenges in relation to these new developments, such as the financial exclusion.

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<sup>14</sup> To examine the Parliament position, see the Resolution of 22 November 2016 on the Green Paper on Retail Financial Services: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0434+0+DOC+XML+V0//EN&language=EN>.

<sup>15</sup> The Summary of the contributions to the Retail Financial Services Consultation is available at: [http://ec.europa.eu/finance/consultations/2015/retail-financial-services/docs/summary-of-responses\\_en.pdf](http://ec.europa.eu/finance/consultations/2015/retail-financial-services/docs/summary-of-responses_en.pdf).

In addition, several trade bodies and consumer organizations called upon the European Commission to guarantee technology neutral legislation that does neither privilege on-line nor off-line approaches.

A broad number of respondents also underlined several other areas of potential concern about digitalization, for instance, consumers' lack of knowledge of the products on offer, due to the emergence of new products, such as text loans or peer-to-peer lending, some of which bring regulatory and consumer protection challenges.

In brief, and reading the Green Paper in its whole, it comes to light that the retail financial services are experiencing significant change due to digitalization and new business models are progressively emerging.

In fact, online-only providers and technology companies are entering the market, offering services, within Member States and sometimes cross-border, including electronic money transfers, intermediation in online payments, financial data aggregation, peer-to-peer funding and price comparison.

Subsequently, new players who, as already said, are not traditional financial services providers and whose primary business model is not always financial services, are becoming relevant players within the market.

Both established firms and new financial technology companies (Fintechs) are exploring ways of interacting with their customers, integrating their distribution channels for products and of providing faster, more responsive and more tailored services.

The development of online distribution channels is of significant interest at the European level.<sup>16</sup> Banks and insurance companies have massively digitalized their sales channels.<sup>17</sup> At the same time, innovative firms are offering new services, through platforms for lending or payment areas, for example. However, these innovations mainly benefit consumers on the domestic market and are not always convenient to consumers located in other Member States.

By allowing providers and consumers to conclude and support distance sales more easily and at a lower cost, digitalization offers access to a large consumer base in the Single Market that can benefit from the best available offers.

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<sup>16</sup> In this regard, see the Study, commissioned by the European Commission, on the distribution systems of retail investment products available at: [https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf).

<sup>17</sup> See 'EIOPA InsurTech - Roundtable How technology and data are reshaping the insurance landscape', July 2017, available at: [https://eiopa.europa.eu/Publications/Reports/08.0\\_EIOPA-BoS17-165\\_EIOPA\\_InsurTech\\_Roundtable\\_summary.pdf](https://eiopa.europa.eu/Publications/Reports/08.0_EIOPA-BoS17-165_EIOPA_InsurTech_Roundtable_summary.pdf).

In conclusion, it must be pointed out that the Green Paper represents the starting point of the Commission action supporting the growth of innovative and consumer-friendly technologies.

This is confirmed by the second step taken by the European Commission, the Consumer Financial Services Action Plan, which will be described in the following paragraph.

### **3. Consumer Financial Services Action Plan: Better Products, More Choice**

On 23<sup>rd</sup> March 2017 the European Commission presented an Action Plan that sets out ways to provide European consumers with greater choice and better access to financial services across the Union, mostly focusing on technology.<sup>18</sup>

The Action Plan shows further steps towards a genuine technology-enabled Single Market for retail financial services, highlighting that:

*‘In the long run, the distinction between domestic and cross-border providers of financial services should no longer matter ... ‘ and ‘Many innovative firms already “think European”, and their use of digital technologies would make it easy to reach customers in all Member States.’<sup>19</sup>*

However, for European Commission, technology only will not be sufficient to address all the obstacles to a Single Market for financial services, so three main strands of work to move forward are emphasized:

- increasing consumer trust and empowering consumers when buying services at home or from other Member States;
- reducing legal and regulatory obstacles affecting businesses when seeking to expand abroad;
- supporting the development of an innovative digital world which can overcome some of the existing barriers to the Single Market.

Regarding the last target, the Commission intends to focus on three core principles.

Firstly, the technology-neutrality, provided that the same rules are applied to traditionally-sold products and services as those sold digitally.

Secondly, proportionality so that the rules are suitable for different business models, size and activities of the regulated entities.

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<sup>18</sup> COM (2017) 139 final — Consumer Financial Services Action Plan: Better Products, More Choice, 23.03.2017.

<sup>19</sup> See pag. 3 of the above mentioned Action Plan.



Ultimately, improved integrity, with the purpose to ensure transparency, privacy and security for consumers.

According to the European Commission, building a true technology-enabled Single Market in financial services will require the support of all stakeholders and the development of new regulatory and supervisory approaches and cross-border co-operation when dealing with innovative firms.

Consequently, alongside this Action Plan, the Commission launched a second public consultation, in order to receive input from stakeholders to further develop the policy approach towards technological innovation in financial services.

Moreover, the Commission established an internal FinTech Task Force including all relevant services working on financial regulation, technology, data and competition to ensure that the assessment reflects the multi-disciplinary approach required by Fintech developments.

Based on the work of the FinTech Task Force and the public consultation, the Commission determined the action directed to support the development of FinTech and a technology-driven Single Market for financial services, by adopting the FinTech Action Plan in March 2018.

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Before analyzing the results of the cited public consultation on FinTech and the following Action Plan, it can be also useful to examine two European acts adopted in Spring 2017: the European Parliament Report on FinTech<sup>20</sup> and the mid-term review of the Capital Market Union Action Plan of June 2017.<sup>21</sup>

Regarding the first, MEPs prepared the European FinTech report, as a good input to the Commission's action plan.

On purpose, the Parliament stresses that legislation and supervision in the area of FinTech should be based on the following principles:

1. same services and same risks, in other words the same rules should apply, regardless of the type of legal entity concerned or its location in the Union;
2. technology neutrality;
3. a risk-based approach, taking into account the proportionality of legislative and supervisory actions to risks and materiality of risks.

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<sup>20</sup> The European Parliament has called on the Commission 'to deploy a proportionate, cross-sectorial and holistic approach to its work on FinTech' — 'Report on FinTech: the influence of technology on the future of the financial sector', Committee on Economic and Monetary Affairs, Rapporteur: Cora van Nieuwenhuizen, 2016/2243(INI), 28 April 2017.

<sup>21</sup> COM (2017) 292 final, Communication on the Mid-Term Review of the Capital Markets Union Action Plan, 08.06.2017.

First of all, the Parliament underlines that FinTech companies contribute positively to the development of financial intermediation, but also create new risks related to financial stability.

The MEPs note that the regulatory and supervisory authorities receive a great amount of information through the balance sheets of established financial institutions related to the implementation of numerous regulatory frameworks, while in the case of non-banking lending entities, in cases such as crowdfunding and Peer-to-Peer (P2P), it is difficult to obtain sufficient information on the financial intermediary activities of their balance sheets.

Second, highlighting the importance of boosting financial innovation in Europe, the Parliament calls for facilitated access to finance for innovative financial service providers and the innovative undertakings which supply them with the material needed to provide these services.

Last, MEPs emphasize that both financial literacy and digital literacy are fundamental factors for the efficient use of Fintech and for lower levels of risk in the Fintech environment.

It should be also borne in mind that, in this occasion, the European Parliament has also put in evidence the potential of blockchain applications for cash and securities transfer, as well as for facilitating ‘smart contracts’, which could open up a wide range of possibilities for both sides of financial contracts, in particular trade finance and business lending arrangements, stressing that blockchain platforms are suitable moreover for the simplification of complex business-to-business (B2B) and business-to-consumer (B2C) transactions.<sup>22</sup>

Concerning instead the already mentioned mid-term review of the Capital Market Union Action Plan, it must be highlighted that the Commission stresses the potential of FinTech to transform capital markets by bringing new market players and more efficient solutions, increasing competition, and lowering costs for businesses and investors.

It is also announced that the Commission would establish a comprehensive approach to enable FinTech and deepen and broaden EU capital markets by integrating the potential of digitisation.

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<sup>22</sup> To deepen the position of the European Parliament on Virtual Currencies, see the Report on virtual currencies (2016/2007(INI)), 03.05.2016.

#### **4. The public consultation on FinTech**

As already said above, to prepare the FinTech Action Plan the Commission carried out a public consultation in March 2017, in order to collect stakeholders' views on the impact of new technologies on financial services.

In responding to the public consultation, many respondents underline that FinTech, and technological innovation in general, are drivers of financial sector development, with huge opportunities in terms of access to finance, operational efficiency, cost-saving and competition.<sup>23</sup>

The vast majority of respondents have shown a positive assessment of FinTech applications, noting that FinTech solutions are progressively used across a wide range of market areas.

With respect to the current development of crowdfunding in Europe, most respondents believe that national regulatory regimes hinder cross-border crowdfunding activity and that a EU-level harmonization is therefore required.

Among the potential areas for harmonization cited there are platforms' disclosure requirements, registration requirements<sup>24</sup> and consumer and investor protection rules. Those against further harmonization argue that the sector was already fully regulated and did not require further European-level action.

A large majority, across all stakeholders, proposes a pan-European framework which should balance the dynamics of the industry and the protection of investors.

The framework should be simple and proportionate, introduce a joint terminology and foster the cross-border market.

To support further FinTech solutions in this field, a number of respondents suggest developing regulatory sandboxes with harmonised criteria so that solutions developed in one Member State could be passported.

The overwhelming majority of respondents are convinced that Distributed Ledger Technology offers opportunities in many different areas, such as: securities, payments, insurance, anti-money laundering and know-your-customer requirements, record-keeping, reporting, crowdfunding, Initial Coin Offerings (ICOs), digital identities, central bank money, post-trading, and financial data sharing.

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<sup>23</sup> Summary of contributions to the 'Public Consultation on FinTech: a more competitive and innovative European financial sector' available at the following: [https://ec.europa.eu/info/sites/info/files/2017-fintech-summary-of-responses\\_en.pdf](https://ec.europa.eu/info/sites/info/files/2017-fintech-summary-of-responses_en.pdf).

<sup>24</sup> For example, see ECB 'Guide to assessments of fintech credit institution licence applications', March 2018, available at: [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.201803\\_guide\\_assessment\\_fintech\\_credit\\_inst\\_licensing.en.pdf?1c99fa2126f6ef80eb61a276bab94379](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.201803_guide_assessment_fintech_credit_inst_licensing.en.pdf?1c99fa2126f6ef80eb61a276bab94379).

## 5. The FinTech Action Plan

As already mentioned, FinTech is the term used to describe the impact of new technologies on the financial services industry, including a variety of products, applications, processes and business models that have transformed the traditional way of providing banking and financial services.

In brief, financial technology, or FinTech, refers to technology-enabled innovation in financial services.

On 8<sup>th</sup> March 2018, the European Commission unveiled an Action Plan on how to tackle the opportunities presented by technology-enabled innovation in financial services.<sup>25</sup>

The Action Plan envisages to enable the financial sector - the largest user of digital technologies and a major driver in the digital transformation of the economy - to make use of the rapid advances in new technologies, such as blockchain, artificial intelligence and cloud services.

At the same time, it seeks to make markets safer and easier to access for new players, in order to benefit consumers, investors, banks and new market players alike.

The Action Plan sets out 19 steps to enable innovative business models to scale up, support the uptake of new technologies, increase cybersecurity and the integrity of the financial system, including:

- the EU FinTech Laboratory where European and national authorities will engage with tech providers in a neutral, non-commercial space;<sup>26</sup>
- the EU Blockchain Observatory and Forum, which reports on the challenges and opportunities of crypto assets and works on a comprehensive strategy on distributed ledger technology and blockchain addressing all sectors of the economy;<sup>27</sup>

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<sup>25</sup> COM (2018) 109 final, Communication of the European Commission 'FinTech Action plan: For a more competitive and innovative European financial sector', 08.03.2018. At EU level see also the EBA's fintech roadmap conclusions from the consultation on the EBA's approach to financial technology (fintech) available at: <https://www.eba.europa.eu/documents/10180/1919160/EBA+FinTech+Roadmap.pdf>. On purpose, it should be reminded that the EBA created the FinTech knowledge Hub Stakeholder database. It could be also interesting to deepen the Report of the U.S. Department of Treasury 'A Financial System That Creates Economic Opportunities Nonbank Financials, Fintech, and Innovation', July 2018, available at: [https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation\\_0.pdf](https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation_0.pdf).

<sup>26</sup> The EU FinTech Lab met for the first time on 20 June 2018 in Brussels. The focus of the session was outsourcing to cloud in the banking and insurance sectors. Participants explored the specific opportunities of cloud outsourcing for financial institutions and supervisors. Also they addressed a number of specific questions and challenges around this technology, to enhance understanding and facilitate the work of Regulators on cloud outsourcing.

<sup>27</sup> A distributed ledger is an information database that is shared across a network. The best-known type of distributed ledger is blockchain.

- consulting on how best to promote the digitisation of information published by listed companies in Europe to give investors far easier access to key information to inform their investment decisions.
- workshops to improve information-sharing when it comes to cybersecurity;
- presenting a blueprint with best practices on regulatory sandboxes, based on guidance from European Supervisory Authorities.<sup>28</sup>

In summary, the FinTech action plan combines both supportive measures to help introduce FinTech solutions and proactive measures to encourage and stimulate new projects and address in a determined way the emerging risks and challenges.

The Commission has set out its plans for further work on enabling, accommodating and, where possible, fostering innovation in the financial sector, while ensuring at all times the protection of financial stability and high levels of investor and consumer protection.<sup>29</sup>

It is one important pillar of a broader strategic approach to regulation in the post-crisis environment, the goals threefold:

1. to promote rapid advances in technology for the benefit of the EU economy, citizens and industry;
2. to foster a more competitive and innovative European financial sector, and
3. to ensure the integrity of the European financial system.

Finally, the Commission set up an Expert Group to assess whether current European financial services rules are adapted to the challenges posed by new technologies.

The group will have to go in an in-depth analysis of regulatory issues in the FinTech area and conclude its work by issuing a report in the second quarter of 2019.

## **6. The Proposal of Regulation on European Crowdfunding Service Providers**

On 8<sup>th</sup> March 2018, the Commission also proposed new rules to help crowdfunding platforms to grow across the European single market.

In short, crowdfunding improves access to funding especially for start-ups and other small businesses which can present their projects on an online platform and call for support in the form of a loan ('peer-to-peer lending') or equity; investors receive a financial return for their investment.

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<sup>28</sup> A regulatory sandbox is a framework set up by regulators that allows FinTech startups and other innovators to conduct live experiments in a controlled environment, under a regulator's supervision. Regulatory sandboxes are gaining popularity, mostly in developed financial markets.

<sup>29</sup> Too deepen the competition issues of FinTech, see the EPRS Study on 'Competition issues in the area of Financial Technology (FinTech)', July 2018, available at: <http://www.europarl.europa.eu/thinktank/en/search.html?word=fintech>.

However, nowadays it is arduous for many platforms to expand into other European countries, consequently the crowdfunding is underdeveloped as compared to other major world economies, and the European market is fragmented.

One of the biggest impediments is the lack of common rules across the Union, raising compliance and operational costs and prevents crowdfunding platforms from expanding across borders.

For all of these reasons, the European Commission decided to present a proposal of regulation to make it easier for these platforms to offer their services European-wide and improve access to this innovative form of finance for businesses in need of funding.<sup>30</sup>

In brief, the proposal:

- establishes a one-stop-shop access to the European market and therefore supports crowdfunding platforms in overcoming the barriers they face operating cross-border;
- provides tailored rules for European crowdfunding services providers covering both investment-based and lending-based business models;
- gives more opportunities to European investors while safeguarding a high level of investor protection in relation to crowdfunding services;
- defines the requirements crowdfunding service providers have to fulfil in order to get the authorization and provides a single point of entry for authorization and supervision by a single authority, the European Securities and Markets Authority (ESMA), in Paris.

Once adopted by the European Parliament and the Council, the proposed Regulation will so allow platforms to apply for an European label based on a single set of rules, enabling them to offer their services across the Union.

Moreover, investors on crowdfunding platforms will be protected by clear rules on information disclosures, rules on governance and risk management and a coherent approach to supervision.

However, the legislative process is still at a very early stage.<sup>31</sup>

## **7. The European Blockchain Initiatives**

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<sup>30</sup> Proposal for a Regulation of the European Parliament and of the Council on European Crowdfunding Service Providers (ECSP) for Business, 08.03.2018, COM(2018) 113 final.

<sup>31</sup> For more information on the legislative process see the EPRS Briefing on 'Establishing a basis for European crowdfunding service provider', June 2018, available at: [http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621903/EPRS\\_BRI\(2018\)621903\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621903/EPRS_BRI(2018)621903_EN.pdf). See also the EPRS Briefing on 'European crowdfunding service providers for business', May 2018, available at [http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621814/EPRS\\_BRI\(2018\)621814\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621814/EPRS_BRI(2018)621814_EN.pdf).

As already mentioned, the Commission also decided to assign a special focus, within the FinTech Action Plan, on the blockchain technology since it is set to lead to a major breakthrough that will transform the way information or assets are exchanged, validated, shared and accessed through digital networks.<sup>32</sup>

From the outset, it is important to avoid confusion between blockchain technologies and cryptocurrencies, which represent just one type of application of blockchain. Blockchain can underpin a wide range of applications in various sectors, which are not limited to cryptocurrency or FinTech.

To further consolidate its expertise and demonstrate the use of distributed ledger technologies beyond its current applications, the Commission has set up a European Financial Transparency Gateway as well as the EU Observatory and Forum on Blockchain.

Regarding the latter, the specific objectives to be reached by the future European Blockchain Observatory and Forum over two years are:

1. identify relevant existing blockchain initiatives, monitor and analyze blockchain developments and trends, as well as the potential implications in terms of risks and opportunities for Europe;
2. develop and provide expertise and support learning from existing initiatives, notably concerning the role that should be played at EU level and possible specific actions that are needed here;
3. create an attractive and transparent forum to engage with stakeholders, facilitate experience sharing and reflections on such possible specific actions, animate / lead expert and public debate by involving notably public authorities, regulators and supervisors.<sup>33</sup>

As regards the European Financial Transparency Gateway (EFTG), it must be recalled that European financial rules (Transparency Directive, 2004/109/EC) require companies listed on European regulated markets to publish certain financial information, such as annual financial reports, in order to protect investors by helping them make informed investment decisions.

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<sup>32</sup> To deepen the Blockchain theme, see the Study of the European Parliamentary Research Service, 'How blockchain technology could change our lives', at: [http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/581948/EPRS\\_IDA%282017%29581948\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/581948/EPRS_IDA%282017%29581948_EN.pdf). In summary, Blockchain is the best known distributed ledger technology. A ledger is a database which keeps a final and definitive record of transactions. Records, once stored, cannot be tampered without leaving behind a clear track. Blockchain enables a ledger to be held in a network across a series of nodes, which avoids one centralised location and the need for intermediaries' services. This is particularly helpful to provide trust, traceability and security in systems that exchange data or assets.

<sup>33</sup> To monitor the European Blockchain Observatory and Forum activities, see: <https://ec.europa.eu/digital-single-market/en/news/eu-blockchain-observatory-and-forum>. In particular, see the first Thematic Report on 'Blockchain Innovation Europe' available at: <https://www.eublockchainforum.eu/reports>.

However, this reporting is currently done via national databases, which are not connected to each other or a central platform, making it more difficult for investors to assess cross-border investment decisions.

The European Financial Transparency Gateway actually links existing national databases through distributed ledger technology, in a simple and affordable way, sharing information on listed companies, fostering cross-border investment activity and contributing to a well-functioning Capital Markets Union.

As regards blockchain, in addition it should be borne in mind that on 10<sup>th</sup> April 2018 several European countries signed a Declaration on the establishment of a European Blockchain Partnership.<sup>34</sup>

The Partnership will be a vehicle for cooperation amongst Member States to exchange experience and expertise in technical and regulatory fields and prepare for the launch of European-wide blockchain applications across the Digital Single Market for the benefit of the public and private sectors.<sup>35</sup>

It must be underlined that, on 16<sup>th</sup> May 2018, the ITRE Committee of the European Parliament approved an oral question to the Commission on how the Commission is planning to provide the environment of legal certainty that is needed to boost Distributed Ledger Technologies and blockchains in Europe and what initiatives the Commission will undertake to create a competitive blockchain ecosystem in the EU.

In addition, in the same day, the ITRE Committee approved, by 52 votes to 1, with 6 abstentions, the non-binding resolution on ‘Distributed ledger technologies and blockchains: building trust with disintermediation’.<sup>36</sup>

Recently, on 3<sup>rd</sup> October 2018, the European Parliament approved the above mentioned resolution where it is highlighted ‘*the significance of DLT in financial intermediation and its potential for improving transparency and reducing transaction costs and hidden costs by better managing data and streamlining processes; draws attention to the interoperability challenges that use of the technology can pose for the financial sector*’.<sup>37</sup>

Last but not least, a brief recall of the cryptocurrencies theme.

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<sup>34</sup> The Blockchain partnership declaration was launched at the Digital Day 2018, and was signed by twenty-two Member States: Austria, Belgium, Bulgaria, Czech Republic, Estonia, Finland, France, Germany, Ireland, Latvia, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

<sup>35</sup> The Declaration on European Partnership on Blockchain is available at: <https://ec.europa.eu/digital-single-market/en/news/european-countries-join-blockchain-partnership>.

<sup>36</sup> More information are available at: <http://www.europarl.europa.eu/news/en/headlines/economy/20180514STO03406/blockchain-technology-we-aspire-to-make-eu-leading-player>.

<sup>37</sup> European Parliament resolution of 3 October 2018 on distributed ledger technologies and blockchains: building trust with disintermediation (2017/2772(RSP)), paragraph 24.



The Commission continues to closely monitor developments of the market and any risks that may arise, while the European Supervisory Authorities continue their assessment of the applicability of European financial regulation to cryptocurrencies. In view of this assessment the Commission will decide if specific initiatives at EU level are required.<sup>38</sup>

It should be underpinned that in the recent resolution of 3<sup>rd</sup> October 2018, cited above, the European Parliament emphasizes *'the volatility and uncertainty surrounding cryptocurrencies; notes that the feasibility of alternative methods of payment and transfer of value using cryptocurrencies can be examined further; calls on the Commission and the ECB to provide feedback on the sources of volatility of cryptocurrencies, identify dangers for the public, and explore the possibilities of incorporating cryptocurrencies in the European payment system;'* (paragraph 27).

### **Conclusion.**

The advent of digital technology is radically changing the way retail financial services are delivered.

The European Union, and the Member States, are studying the phenomenon closely and have already taken measures to encourage the entry into the market of new business models and actors, such as in the case of crowdfunding, with particular attention to the protection of consumers and European savers as well as the respect of the competition rules.<sup>39</sup>

Blockchain technology, so far used in particular in the context of virtual currencies, but not only, has the potential to significantly modify the retail financial services sector.

In this regard, the European institutions, in cooperation with the national ones, will have to follow closely the development of this technology, identifying shared solutions that will protect all the interests at stake.

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<sup>38</sup> To deepen the subject of cryptocurrencies, see the EPRS Study on 'Cryptocurrencies and blockchain', July 2018, available at: [http://www.europarl.europa.eu/RegData/etudes/STUD/2018/619024/IPOL\\_STU\(2018\)619024\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/619024/IPOL_STU(2018)619024_EN.pdf). See also the EPRS Study on 'Virtual currencies and terrorist financing: assessing the risks and evaluating responses', July 2018, available at: [http://www.europarl.europa.eu/RegData/etudes/STUD/2018/604970/IPOL\\_STU\(2018\)604970\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/604970/IPOL_STU(2018)604970_EN.pdf).

<sup>39</sup> To deepen the current Italian legal framework, see Bank of Italy, *'Indagine conoscitiva sulle tematiche relative all'impatto della tecnologia finanziaria sul settore finanziario, creditizio e assicurativo'*, December 2017, available at: [https://www.bancaditalia.it/compiti/vigilanza/analisi-sistema/stat-banche-intermediari/Fintech\\_in\\_Italia\\_2017.pdf](https://www.bancaditalia.it/compiti/vigilanza/analisi-sistema/stat-banche-intermediari/Fintech_in_Italia_2017.pdf); CONSOB, C. Schena, A. Tanda, C. Arlotta, G. Potenza, 'Lo sviluppo del FinTech - Opportunità e rischi per l'industria finanziaria nell'era digitale', March 2018, available at: [http://www.consob.it/documents/46180/46181/FinTech\\_1.pdf/35712ee6-1ae5-4fbc-b4ca-e45b7bf80963](http://www.consob.it/documents/46180/46181/FinTech_1.pdf/35712ee6-1ae5-4fbc-b4ca-e45b7bf80963); IVASS, 'Fintech e regole Considerazioni conclusive del Direttore Generale della Banca d'Italia e Presidente dell'IVASS', 10.05.2018, available at: [https://www.ivass.it/media/interviste/documenti/interventi/2018/10-05-18-sr-fintech/rossi\\_fintech\\_20180510.pdf](https://www.ivass.it/media/interviste/documenti/interventi/2018/10-05-18-sr-fintech/rossi_fintech_20180510.pdf).

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