

# EC Digital Finance Package

22 October 2020

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# Digital Finance Package covers range of measures to 2024

## Includes:

- Digital Finance Strategy
- Legislative proposals on markets in Crypto-Assets (**MiCA**) to address risks from unregulated CAs. Plus **DLT Pilot Regime** to clarify treatment of CAs that are in scope of existing rules
- Legislative proposals on Digital Operational Resilience (**DORA**), to strengthen and harmonise ICT security across financial sector

# DFP ex. MiCA/DORA – Digital Finance Strategy

The Digital Finance Strategy sets out four main priorities:

- **Tackle fragmentation in Digital Single Market**
  - Strengthen the European Forum for Innovation Facilitators (EFIF)
  - Guidelines on digital onboarding
- **Adapt regulatory framework to facilitate digital innovation**
  - Guidance on the use of AI applications in finance
  - CA legislative proposal
- **Promote innovation via common financial data space**
  - Strategy on supervisory data
- **Address risks from digital transformation**
  - DORA

# MiCA and pilot regime – overview

	Issue	Scope	Key components
<b>Markets in Crypto-Assets ('MiCA')</b>	<p>Risks to consumer protection and market integrity</p> <p>Specific risks to financial stability and monetary policy from (large) stablecoins</p>	Unregulated CAs	<ul style="list-style-type: none"> <li>• Conduct and governance rules for issuers, who must publish a whitepaper</li> <li>• Stringent rules for stablecoin issuers</li> <li>• EBA to supervise significant stablecoins</li> <li>• MiFID-like requirements on providers</li> <li>• Rules to prevent market abuse</li> </ul>
<b>Pilot regime for market infrastructures based on DLT ('pilot regime')</b>	Challenges in applying the existing rules, where CAs qualify as MiFID financial instruments	CAs that qualify as MiFID financial instruments	<ul style="list-style-type: none"> <li>• DLT market infrastructures, namely DLT MTFs and DLT SSSs, may be exempted from specified EU rules, under certain conditions</li> <li>• Limitations on type and volume of securities that DLT market infrastructures may process</li> </ul>

# DORA – overview

	Issue	Scope	Key components
<b>New legislative requirements in DORA</b>	Increased impact of ICT and information security risk on financial services  Fragmentation of ICT risk management and reporting requirements	Entities across the financial sector  ICT third party providers  Crypto-asset providers	<ul style="list-style-type: none"><li>• ICT risk management (including information security and cybersecurity)</li><li>• Incident management and reporting</li><li>• Advanced testing requirements</li><li>• Management of ICT third party risk</li></ul>

# DORA – extended overview of legislative requirements

## **ICT risk management requirements.** Financial entities must:

- Have frameworks on governance, control, business continuity
- Monitor of digital resilience strategy implementation
- Maintain updated ICT systems
- Follow new principles for third party ICT services (on proportionality, contracting, exist strategies, information security, records and audit)

## **Incident management and reporting**

- ESAs to develop ICT incident classification scheme
- Financial entities then report major incidents to CA within deadlines, using harmonised reporting templates
- ESAs to assess feasibility of a centralised EU hub for incidents

# DORA – extended overview of new mandates for ESAs

## Oversight of Critical Third Party Service Providers (CTPPs)

- Governance: Joint Committee (JC) to establish Oversight Forum (OF) to coordinate CTPP oversight, risk analysis, best practices, benchmarking
- Major role for ESAs: JC/OF to designate CTPPs. JC/OF to designate an ESA as Lead Overseer of each CTPP
- Powers: Lead Overseer can investigate CTPPs (e.g. on-site inspections) with unrestricted information access. Can issue recommendations. Can impose periodic penalty payments, but full sanctioning powers remain with CAs

## Resilience testing

- CAs to validate the testing documentation and issue an attestation

# Ambitious proposals with broad scope and impact

- The Digital Finance Strategy sets the scene for the next 4 years
  - More clarity needed on the different actions but the priorities are clear
- Legislative proposals on CAs
  - MiCA: need of more clarity on the scope
  - Careful consideration of regulatory arbitrage risks and interaction of existing regulation
- Legislative proposals on digital operational resilience
  - Broad and complex proposal including the very important attempt of harmonising ICT requirements across financial markets and introducing cyber incident reporting
  - Challenges posed by the oversight framework of CTPPs

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