

JOINT ESAs ADVICE TO THE COMMISSION ON DIGITAL FINANCE

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What is the context for the ESAs' work?

- more fragmented or non-integrated **value chains** arising as a result of the growing reliance by financial firms on third parties for the delivery of their services and the entry of technology companies in financial services;
- **digital platforms** and bundling various financial services;
- new **mixed activity groups**, namely groups providing both financial and non-financial services.

The Call for Advice was issued as part of the **EC's Digital Finance Strategy** ⁽³⁾, which is aimed at ensuring the EU's regulatory and supervisory framework for financial services remains fit-for-purpose in the digital age.

In February 2021, the European Commission (EC) issued a **Call for Advice on Digital Finance** ⁽¹⁾ setting out a request for the European Supervisory Authorities ⁽²⁾ (ESAs) to provide technical advice on the following issues:

⁽¹⁾ https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/210202-call-advice-esas-digital-finance_en.pdf

⁽²⁾ The European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), and European Securities and Markets Authority (ESMA).

⁽³⁾ https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en

What are the key findings of the ESAs?

The ESAs have found that value chain evolutions, the use of digital platforms, and the emergence of new mixed activity groups in the financial sector, pose both opportunities and risks.

The ESAs have identified the need for a series of actions to leverage the full potential of these developments whilst effectively mitigating the risks. The ESAs recommend actions to:

1. develop a holistic approach to the regulation and supervision of the financial services value chain;
2. strengthen consumer protection in a digital context;
3. promote convergence in the classification of cross-border services;
4. support further convergence in addressing anti-money laundering and countering of the financing of terrorism (AML/CFT) risks;
5. ensure effective regulation and supervision of mixed activity groups;
6. strengthen supervisory resources and cooperation between financial and other relevant authorities, including on a cross-border and multi-disciplinary basis;
7. actively monitor the use of social media in financial services.

In relation to digital platforms, the report also reflects the findings set out in the EBA's September 2021 report ⁽⁴⁾.

⁽⁴⁾ <https://www.eba.europa.eu/eba-sees-rapid-growth-use-digital-platforms-eu%E2%80%99s-banking-and-payments-sector-and-identifies-steps>

How will the ESAs' work help consumers?

The ESAs have set out recommendations aimed at strengthening consumer protection as technology is increasingly leveraged to transform delivery mechanisms for financial services.

What legislative changes have the ESAs identified?

The ESAs have identified several areas where legislative action is needed, or is likely to be needed, to address the issues raised, including in the areas of:

- consumer protection, notably regarding pre-contractual disclosures;
- AML/CFT;
- the perimeter of prudential consolidation.

WHAT ARE THE EBA'S NEXT STEPS IN 2022?

The EBA will provide in March its response to the EC on non-bank lending, including on any potential need to adjust the EU regulatory perimeter.

The EBA will continue to help competent authorities in deepening their understanding of technology-facilitated structural changes in the EU financial sector, and support them in:

- developing common questionnaires for regulated financial institutions on digital platform use;
- sharing information about financial institutions' reliance on digital platforms to facilitate coordinated EU-wide monitoring.

Additionally, the EBA will continue its efforts to foster the sharing of supervisory knowledge and experience on digital platforms and enablers on a sectoral and multi-disciplinary basis, including via actions under the coordination of the **EBA's FinTech Knowledge Hub** ⁽⁵⁾.

⁽⁵⁾ <https://www.eba.europa.eu/financial-innovation-and-fintech/fintech-knowledge-hub>

These include recommendations in the areas of:

- disclosure practices;
- complaints handling and redress mechanisms;
- financial literacy;
- the use of social media as way of marketing financial products and services.

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