

ESMA responds to European Commission consultation on the Digital Finance Strategy

Cooperation around financial innovation at EU level is key to remove fragmentation in the digital financial services market. ESMA believes that certain specific initiatives would support this goal, such as developing Digital Financial Identities, that are usable and recognised throughout the EU, based around the existing ISO 17442 global standard of the Legal Entity Identifier (LEI). ESMA's response also outlines several conditions needed for a well-regulated data-driven financial sector, including appropriate skills, data standardisation and data security.

In its response, ESMA focuses on:

- risks and benefits of digitalisation of the financial sector. Benefits include increased speed, efficiency, convenience and greater economies of scale as well as automated tools that help firms and authorities detect cases of poor conduct. Risk areas include data security, operational incidents, data privacy, pricing, sales practices and the financial exclusion of some individuals;
- ensuring a technology-neutral EU financial services regulatory framework that supports innovation. An EU-wide harmonised regulatory/supervisory framework is necessary to allow innovative firms in the EU to reach the scale that they need and provide for the necessary safeguards to investor protection, financial stability and orderly markets.
- removing fragmentation in the single market for digital financial services. An important way to address fragmentation in the single market for digital financial services is through cooperation at EU level, for example through the European Forum for Innovation Facilitators (EFIF) established by the Joint Committee of the ESAs. Certain specific initiatives such as electronic identification initiatives, including [eIDAS](#), can support the goal of removing fragmentation in the single market for digital financial services. Digital Financial Identities that are usable and recognised throughout the EU depend on the introduction of a unique standardised and harmonised means of identification. Such means already exist in the financial sector in the form of the LEI, which should be promoted to the maximum extent possible.
- promoting a well-regulated data-driven financial sector. A challenge for firms, authorities and consumers alike is to build the necessary knowledge and expertise to benefit from digital technologies. Key requirements for efficient and easy use of data are data standardisation and harmonisation, security of IT-systems and legal certainty regarding pertinent responsibilities, liabilities and usage permissions. For publicly available data to be easily usable, they need to be subject to unrestricted access in a

timely manner. Data quality issues should be addressed through robust verification mechanisms, and text data need to be in machine-readable format. An area of interest for ESMA is the potential for AI-based tools (such as machine learning) to support the authority's statistics-related activities.

A [letter to the EC](#) from Steven Maijoor, the ESMA Chair, accompanies the response and summarises the main points. To prepare its response, ESMA has taken into account the detailed analyses it has carried out in recent years on topics such as Distributed Ledger Technology and Crypto-Assets (CAs).