



Blockchain and Cryptocurrencies: initiative in the EU and the EU banks

**New Trends in Financial Technologies:
Blockchain, Cryptocurrencies and Security**

Azerbaijan Banks Association, 17 May – Baku



Who is the EBF ?

Who we are

- National Banking Associations from 32 countries
- 4.500 banks with 2.3 million employees

From

- Major cross-border institutions and small regional entities
- Wholesale and retail financial institutions



Who is the EBF ?

Our mission

- To be the voice of Europe's banks
- To serve the interests of the European banking industry
- To position the European banking industry within the European and global regulatory frameworks

4 Strategic themes for 2018:

- Banking Supervision & SSM
- Digital transformation of banks
- Financing growth & the Single Market
- Reputation



EBF's work on digital 2015

- ◆ Lack of attention to the digital transformation of financial services was a missed opportunity for Europe.
- ◆ 2015: EBF published the [EBF DigitalBlueprint : driving the digital transformation](#) to ensure digital was included in the Commission work and to invite the different Commission's Directorate Generals (DGs CONNECT, FISMA and JUST) to work closely together.
- ◆ 2015: The EBF created a Digital Strategy group, bringing together head of digital of banks, national associations and experts to discuss fast track legislation needs.

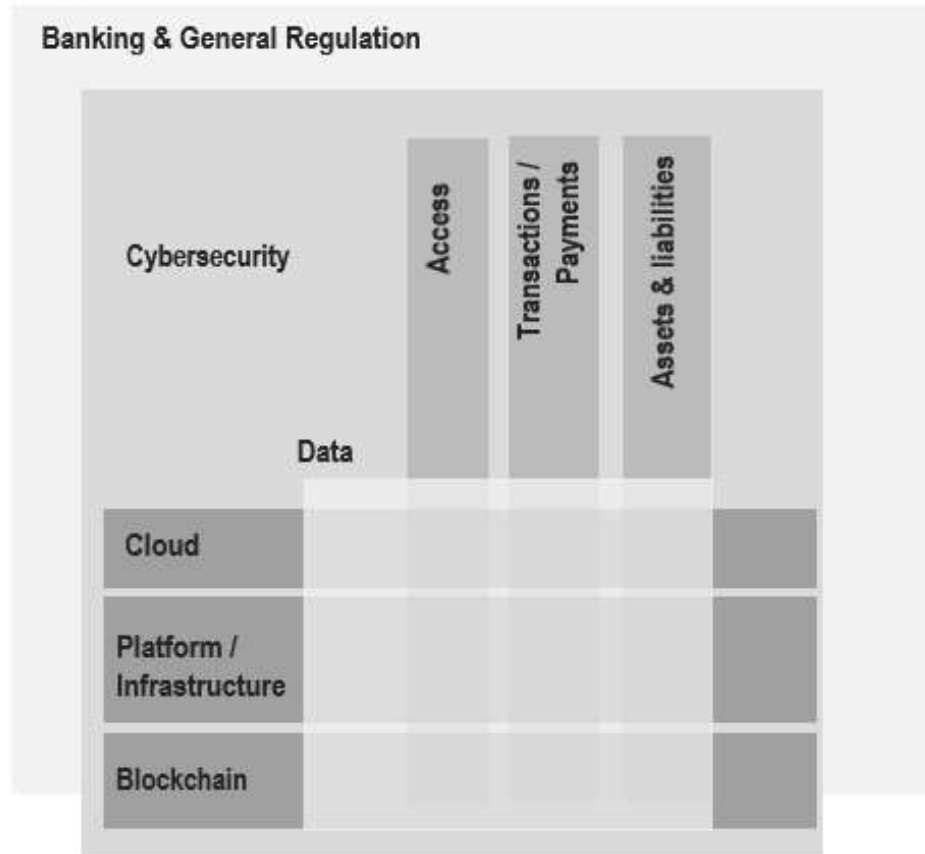
EBF's work on digital 2016

- ◆ 2016: EBF published "[INNOVATE, COLLABORATE, DEPLOY, the EBF vision for banking in the Digital Single Market](#)" which provide clear recommendations on key priorities identified by banks.
- ◆ 2016: CEOs Roundtable on Banking in the Digital Age was organised with EU Vice President Dombrovskis and EU Commissioner in charge of digital.
- ◆ Leaders of European banks have presented their views on digital transformation



EBF Workstreams identified

Digital skills



- Banking and general regulations
- Access / E-identification / e-signature / e-archiving
- Data
- Cloud
- Payments and aggregation
- Cybersecurity
- Online platform and infrastructure
- Blockchain technologies
- Cryptocurrencies
- Alternative lending and investment (crowdfunding etc.)
- Digital skills

DLT: What is happening at EU level ?



European Securities Markets Authority (ESMA) assessed DLT's potential and interactions with EU rules



- On February 7 2017, ESMA released a report on DLT, setting out its views on the technology, possible applications, benefits, risks and how it interacts with existing EU legislation.
- **ESMA has not identified major impediments in the EU regulatory framework that would prevent the emergence of DLT in the short term.**
- ESMA believes that the technology, besides reduced costs and reduced counterparty risks, could bring a number of benefits to financial markets, namely:
 - More efficient post-trade services
 - Enhanced reporting and oversight
 - Greater resilience and availability
- In addition to identifying the benefits, ESMA points out to some key challenges for DLT in terms of interoperability, governance and privacy issues and risk creation

European Central Bank – Project Stella

Launched in December 2016, the joint research project “Stella” of the Bank of Japan (BOJ) and the European Central Bank (ECB) studies the possible use of distributed ledger technology (DLT) for financial market infrastructures.



- The joint work is being conducted at conceptual level and through practical experimentation with the technology.
- Project Stella aims to contribute to the ongoing broader debate around the potential usability of DLT while not being geared towards replacing existing central bank services with DLT-based solutions.
- **In September 2017 the first findings of project Stella were published.** The analysis focused on efficiency and safety aspects of the operation of payment system functionalities in a DLT environment. The experiments provided promising results and valuable insights into the functioning of DLT. Given the relative immaturity of the technology, however, it was noted that **DLT was not a solution for large-scale payment services** like BOJ-NET and TARGET2 at this stage of development.
- Moving from payments to securities settlement, the second phase of the Stella project explored how the delivery of securities against cash could be conceptually designed and operated in a DLT environment. It draws on existing delivery-versus-payment (DvP) approaches as well as innovative solutions that are currently being discussed for DLT.
- The second phase of project “Stella” has proven that – from a conceptual and technical viewpoint – the settlement of securities against cash can follow different designs in a DLT environment. However, given that discussions on applying DLT to DvP arrangements are still at an early stage, further analysis on the safety and efficiency of individual approaches is warranted.

European Commission – 2018 Fintech Action Plan



European Commission's next steps

- 8 March 2018: publication of the FinTech action plan
- In the course of 2018, the Commission will help to develop more coordinated approaches on (including in the blockchain area)
- The Commission will continue to work on a comprehensive strategy, considering all relevant legal implications, on distributed ledger technology and blockchain addressing all sectors of the economy
- The Commission launched an EU Blockchain Observatory and Forum. This will support the Commission in appraising legal, governance and scalability issues and support interoperability and standardisation efforts, including further evaluating cases of blockchain use and its applications in the context of the Next Generation Internet.

EBF & Blockchain

- Creation of an EBF Blockchain Taskforce in 2016
- Finally over 25 Members with different background
 - Securities
 - Payment
 - Cybersecurity
 - DLT experts
 - IT experts
- Focus on education
- But EBF is also a platform to share good practices and/or discuss the latest POC



EBF & Blockchain: a first assessment

- 2015-2016 huge focus on DLT
- 2017 From hype to concrete applications
 - First concrete use cases not necessarily targeting Capital Markets
 - ~~Revolution~~-Evolution
- 2018: first applications going live?
 - Increasing attention from Regulators?
 - Global initiatives on standardization?
- EDUCATION will remain key! → EBF role on this will be crucial



Cryptocurrency: An European overview





EBA opinion on virtual currencies



In its opinion from 2014 the EBA has concluded that there are some potential benefits from virtual currencies, such as faster and cheaper transactions, as well as financial inclusion; however risks outweigh the benefits, which in the European Union remain less pronounced.

As an immediate response, the **EBA advised national supervisory authorities to discourage credit institutions, payment institutions and e-money institutions from buying, holding, or selling virtual currencies.**

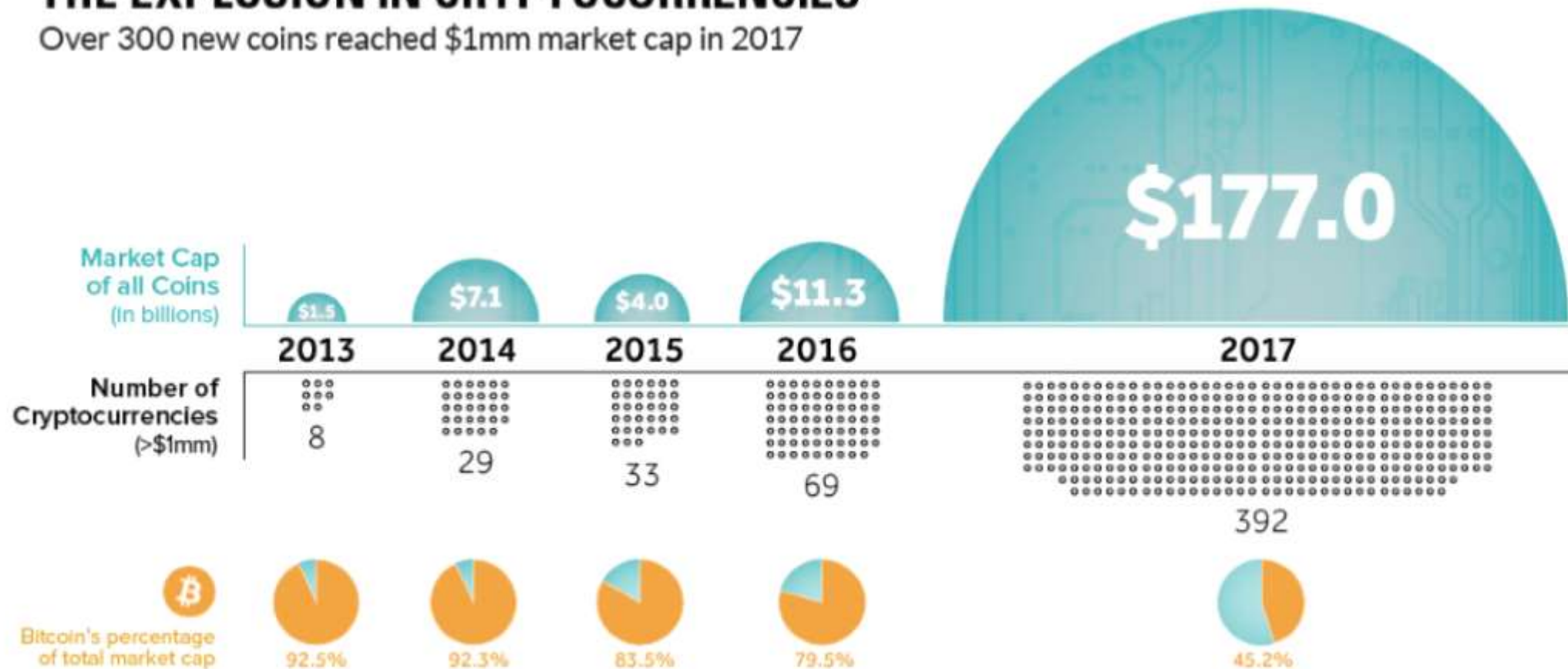


Why regulators are looking at cryptocurrencies?

Chart of the Week

THE EXPLOSION IN CRYPTOCURRENCIES

Over 300 new coins reached \$1mm market cap in 2017



SOURCE: Coinmarketcap.com, last week of August 2017 each year

visualcapitalist.com



European Commission Roundtable on Cryptocurrencies

- **Last year's increased attention on virtual currency, European regulators organised a high-level roundtable in February 2018 in Brussels**
- **Agenda focused on 3 main issues:**
 1. Crypto-tokens, implications for financial markets
 2. Crypto-tokens as an emerging asset class. Investor protection and market integrity
 3. ICOs: definition, potential and challenges



European Commission Roundtable on Cryptocurrencies

- Roundtable was very high-level with, among the others, EC Vice Presidents, ECB Board Member and representatives from all the main European Financial Authorities.
- There was an active participations to the discussions by all the institutions.
- Apart from the EU institutions representatives, several National Central Banks, Ministry of Finance and National Authorities were represented
- From the banking side, EBF was the only representative.
- Furthermore few crypto stock exchanges attended (Coinbase, Globitex), as well as BitPay and ConsenSys.
- All the topic on the agenda were discussed. Overall discussions went very smoothly, without many divergencies among participants. Main focus was on investor protection.
- Strong negative comments by the ECB



Crypto-currency and EU institutions

European Central Bank (ECB)'s position:

- There is no concern from the ECB side in term of numbers: Figures at the moment are relatively low, especially in Europe.
- Virtual currencies (VC) are not the latest incarnation of money
- Virtual currency transactions are slower and more expensive compared to card payments providers' transactions

Yet even if VCs are not money, central banks should still be aware of the potential risks they pose for price stability and financial stability.

ECB remains however reluctant to intervene



Crypto-currency and EU institutions



European Commission's next steps

- 8 March 2018: publication of the FinTech action plan
- In the course of 2018, the Commission will continue monitoring the developments of crypto-assets and Initial Coin Offerings with the ESAs, the European Central Bank and the FSB as well as other international standard setters.
- Based on the assessment of risks, opportunities and the suitability of the applicable regulatory framework, the Commission will assess whether regulatory action at EU level is required.

Crypto-currency and EU institutions



Regulatory initiatives at EU level ?

- No regulatory initiatives at EU level
- Monitoring and keep discussing
- Understand the phenomenon first to prepare any reaction if need be
- Example of Switzerland: guidelines that should help local initial coin offerings, where start-up companies sell digital tokens to investors.

EBF general position on Cryptocurrencies

We **share regulators concerns** on certain prominent cryptocurrencies related to the:

- Extreme volatility and speculation risks
- Risks of money laundering and terrorist financing
- Absence of protection for consumers
- Lack of exit option and price transparency
- Insufficient or misleading disclosure to consumers
- Operational risks
- Scarcity of reliable exchanges

Furthermore we are **concerned that the broader potential of DLT and blockchain-based innovation is derailed by discussions around cryptocurrencies** offerings and their specific risks.

This is why **we ask for immediate targeted actions**

Conclusions

- Banks seek to ensure that any development in this area would overcome the aforementioned challenges as well as the specific risks related to cryptocurrencies and ICOs
- Banks expect to operate in a regulated environment where a level-playing field is guaranteed: the principle same business, same risks, same rules should apply
- Nonetheless we recognise the traction and interest in the marketplace and from an innovation standpoint we are continuously and actively following this area and exploring opportunities and the ways to be of value to our customers



Thank you

Daniele De Gennaro
Policy Advisor
d.degennaro@ebf.eu