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| Call for evidence |
| **Digital Finance** |

Responding to this paper

ESMA invites comments on this paper and in particular on the specific questions summarised in Appendix 1. Responses are most helpful if they:

• respond to the question stated;

• contain a clear rationale;

• give concrete examples

ESMA will consider all responses received by **1 August 2021.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

**Instructions**

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

1. Insert your responses to the questions in the Consultation Paper in the present response form.
2. Please do not remove tags of the type <ESMA\_QUESTION\_DCFE\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
3. If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
4. When you have drafted your response, name your response form according to the following convention: ESMA\_DCFE\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_DCFE\_ABCD\_RESPONSEFORM.
5. Upload the form containing your responses, in Word format, to ESMA’s website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading “Your input – Open consultations” 🡪 “Call for Evidence on Digital Finance”).

**Publication of responses**

All contributions received will be published following the close of the call for evidence, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading [Legal Notice](http://www.esma.europa.eu/legal-notice).

**Who should read this paper**

All interested stakeholders are invited to respond to this call for evidence.

This call for evidence is primarily of interest to:

1. Financial firms relying on third-parties, in particular technology firms, to fulfil critical or important functions;
2. Third-parties, in particular technology firms, on which financial firms rely to fulfil critical or important functions;
3. Technology firms providing financial services, either directly or through partnerships with financial firms;
4. Platforms marketing or providing access to different financial services;
5. Groups combining financial and non-financial activities, also known as mixed activity groups.

**Abbreviations and definitions**

**Abbreviations**

EBA European Banking Authority

EC European Commission

ESAs European Supervisory Authorities

EIOPA European Insurance and Occupational Pensions Authority

ESMA European Securities and Markets Authority

EU European Union

ICT Information and Communication Technology

MAGs Mixed-activity groups

NCA National Competent Authority

**Definitions**

‘Financial firm’ means any firm falling within ESMA’s remit, including (i) alternative investment fund managers of 'AIFMs' as defined in Article 4(1)(b) of the AIFMD and depositaries as referred to in Article 21(3) of AIFMD (‘depositaries of alternative investment funds (AIFs)’); (ii) management companies as defined in Article 2(1)(b) of the UCITS Directive (“UCITS management companies”) and depositaries as defined in Article 2(1)(a) of UCITS Directive (“depositaries of UCITS”); (iii) central counterparties (CCPs) as defined in Article 2(1) of EMIR and Tier 2 third-country CCPs within the meaning of Article 25(2a) of EMIR which comply with the relevant EMIR requirements pursuant to Article 25(2b)(a) of EMIR; (iv) trade repositories as defined in Article 2(2) of EMIR and in Article 3(1) of SFTR; (v) investment firms as defined in Article 4(1)(1) of MiFID II and credit institutions as defined in Article 4(1)(27) of MiFID II, which carry out investment services and activities within the meaning of Article 4(1)(2) of MiFID II; (vi) data reporting services providers as defined in Article 4(1)(63) of MiFID II; (vii) market operators of trading venues within the meaning of Article 4(1)(24) of MiFID II; (viii) central securities depositories (CSDs) as defined in Article 2(1)(1) of CSDR; (ix) credit rating agencies as defined in Article 3(1)(b) of the CRA Regulation; (x) securitisation repositories as defined in Article 2(23) of SECR; or (xi) administrators of critical benchmarks as defined in Article 3(1)(25) of the Benchmarks Regulation.

‘Financial service’ and ‘financial product’ means any financial service and product falling within ESMA’remit, i.e., any financial service and product provided by a financial firm as defined above. Please note that banking, payment, credit and insurance services and products are excluded from the scope of the call for evidence as they fall within EBA’s and EIOPA’s remit.

‘Platform’ means any digital platform that enables financial firms directly (or indirectly using a regulated or unregulated intermediary) to market to investors, and/or conclude with investors contracts for, financial products and services. The definition of ‘platform’ aims to be both ‘model’ and ‘technology-neutral’. Examples of platforms that are relevant for this call for evidence include but are not limited to technical infrastructures used by financial firms to market or distribute different financial products and services, and enabling investors to access products and services provided by different financial firms, such as fund distribution platforms, robo-advisors and on-line trading platforms. Those technical infrastructures that have been developed by financial firms for their sole individual benefit are outside of the scope of this call for evidence.

‘Mixed activity group’ means a group of undertakings (a parent undertaking and its subsidiary undertakings) conducting both financial and non-financial activities.

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# Executive Summary

**Reasons for publication**

Technological innovation is transforming financial services at an unprecedent speed, by facilitating new business models and services and the entrance of new market participants. Covid-19 is accelerating this shift and the digitalisation of financial services. These changes bring a host of opportunities, including the prospect of better financial services for businesses and consumers and greater financial inclusion. Yet, they raise challenges as well, as they can contribute to introduce or exacerbate new risks. Also, the existing regulatory and supervisory framework may not fully capture and address these new developments.

In September 2020, the European Commission (EC) published a digital finance package[[1]](#footnote-1) with the aim to embrace digital finance in the EU. Following on the package, in February 2021, the EC set out a request for technical advice[[2]](#footnote-2) to the European Supervisory Authorities (ESAs) on three main issues, namely (i) the growing fragmentation of value chains in finance, (ii) digital platforms and (iii) groups combining financial and non-financial activities. In particular, the ESAs are requested to assess the regulatory and supervisory challenges brought by these developments and the way in which they could be addressed. ESMA is seeking feedback from external stakeholders to inform its work on the matter.

**Contents**

Section 2 explains the background of this call for evidence. Sections 3, 4 and 5 set out the topics on which ESMA is asking for feedback and the questions. Appendix 1 summarises the questions.

**Next Steps**

ESMA will consider the information received through this call for evidence when drafting its response to the EC. ESMA, together with the other ESAs, need to deliver a report to the EC by 31 January 2022. The technical advice received from the ESAs will not prejudge the EC's decisions in any way.

# Introduction

1. Digitalisation is transforming society, the economy and the financial sector. This transformation, and the application of innovative technologies in the EU financial sector, has the potential to benefit people and companies. By facilitating the entry of new market participants, reducing geographical barriers and promoting greater transparency in the provision of financial services, technological innovation can provide better financial services to a wider range of businesses and consumers, possibly at a lower cost. It can also foster financial inclusion.
2. Meanwhile, those changes are not exempt of challenges. The entry of - large and small - technology companies in financial services and the growing reliance on those companies by financial firms can give rise to new forms of risks, e.g., in relation to security, interconnectedness, concentration and competition.[[3]](#footnote-3) These changes raise specific regulatory and supervisory challenges as well, including due to their global and cross-sectoral nature and the risk of unlevel playing field.
3. The EC aims to address the challenges and risks attached to digital transformation by proposing, where relevant, adaptations to the existing legislative frameworks by mid-2022. To prepare these actions, and considering that regulation should be technology neutral according to the ‘same activity, same risk, same rule’ principle, the EC is requesting technical advice from the ESAs on the following key issues[[4]](#footnote-4):
   1. 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;
   2. platforms and bundling various financial services;
   3. groups combining different activities, namely mixed activity groups providing both financial and non-financial services.
4. Importantly, the recent legislative proposals for the Digital Markets Act (DMA)[[5]](#footnote-5) – adopted on 15 December 2020 – and Digital Operational Resilience Regulation (DORA)[[6]](#footnote-6) intend to address some of the above risks and challenges already. DMA proposes new ex-ante rules for gatekeeper platforms as well as a new supervisory framework at EU level to address conduct and competition harm risks. Most of the large technology companies which are currently offering financial services are likely to fall into the scope of this proposal. Similarly, DORA proposes a new oversight framework for those ICT service providers that are critical to the financial sector, which is likely to apply to most of the large technology companies to the extent that they provide ICT services to financial firms. The framework aims to monitor and address concentration risk and systemic risk that may arise from critical third-party provision of ICT services. However, other gaps and issues, e.g., in relation to conduct or prudential risks or cooperation between relevant competent authorities, may be left unaddressed and require further adaptations to the existing regulatory and supervisory frameworks.
5. With this call for evidence (CfE) ESMA seeks the input of market participants, technology companies and other stakeholders on those remaining gaps and issues that would need to be addressed.
6. Noteworthy, ESMA is cooperating closely with EBA and EIOPA on these matters, leveraging on the work already undertaken, for example in the form of a survey on digital platforms to the industry[[7]](#footnote-7) for what concerns EBA or a Discussion Paper on the (re)insurance value chain and new business models arising from digitalization[[8]](#footnote-8) for what concerns EIOPA.

**General information about respondent**

|  |  |
| --- | --- |
| Name of the company / organisation | Euronext |
| Activity | Exchange or Trading System |
| Are you representing an association? |  |
| Country/Region | Netherlands |

1. Please insert here any general observations or comments that you would like to make on this call for evidence, including how relevant digital finance may be to your own activities.

<ESMA\_QUESTION\_DCFE\_1>

Euronext welcomes the work of the Commission aimed at developing a harmonised regulatory framework with a view to make the EU fit for a digital age. We believe that, as a market operator, we play an important role in supporting the stability of the financial system by taking several measures with regards to cyber resilience defences and integrate new technologies into our day-to-day activities.

Euronext has been successfully implementing digital finance applications across our different businesses, that brought substantial benefits. Digital finance allowed us to:

* adapt and facilitate financial market participants’ access to markets, addressing their various needs from co-located access to front-ends and web applications.
* broaden our range of digital services, including regulatory, compliance, communication and investor relation tools to facilitate investors, listed and non-listed corporates’ journey in public capital markets, enabling them to better comply with their respective regulatory requirements.
* broaden our range of products via the enrichment of our data offering, enabling issuers to monitor their performance and investors to take their investment and trading decisions with the use of advanced analytics and artificial intelligence.
* offer a faster time to market, notably due to the increasing use of the cloud technology. The possibility to test and refine our product and services offering allow us to launch products with shorter development loops.

The introduction of digital assets, and the shift to value chain is of interest for Euronext. Euronext, as an investor in Tokeny, is leveraging the blockchain technology to simplify security issuance, investment and lifecycle management in private markets.

In addition, the use of digital assets allows for the experimentation of capital market value chain transformations. Euronext, together with AFS, BNP Paribas, Caceis, Caisse des Dépôts, Euroclear, Ofi and Société Générale, launched LiquidShare and notably experimented the delivery vs. payment of listed securities in a blockchain based distributed ledger, as well as the use of Central Bank Digital Currencies.

As a general comment, Euronext believes that any legally binding approach that the Commission aims to undertake should be based on existing EU financial market practices, as this would provide legal certainty to reduce regulatory arbitrage, inconsistencies, market fragmentation, and ensure scalability of services within the EU.

Scalability is extremely important for EU firms to successfully compete on a global scale and with non-EU entities active within the EU. We would further highlight that technology neutrality and “same business, same risks, same rules” principles should apply within the EU regulatory framework for new technologies should be designed in such a way to keep the balance between innovation and safety for financial markets.

For innovation to present low risks for financial market participants and guarantee the proper functioning of the financial system, the values of transparency, fairness, stability, investor protection, and market integrity should be upheld. We see regulators and authorities already addressing these issues providing regulatory frameworks for new technologies (e.g. ESMA Guidelines for Cloud Outsourcing, the Digital Operational Resilience Act (DORA) Regulation and the Markets in Cryptoassets (MiCA) Regulation).<ESMA\_QUESTION\_DCFE\_1>

# More fragmented or non-integrated value chains

1. Technological developments are increasing the extent to and ways by which financial firms rely on third-parties, in particular technology firms, for the delivery of services, thereby leading to more fragmented or non-integrated value chains. This dependency can take different forms, e.g., outsourcing, partnerships, cooperation agreements or joint ventures. Examples include cloud outsourcing arrangements or the use of technology companies for data analytics, risk management or marketing purposes. In addition, digital innovation facilitates the entry of technology companies in financial services, again leading to potentially closer interlinks and increased inter-dependency between those companies and financial firms.
2. These new business models may entail various benefits, such as increased efficiency. However, they may also introduce new risks and may not be fully captured by the existing regulatory framework. Indeed, the entities contributing to the provision of the financial services may be subject to a set of individual requirements in the absence of a holistic approach or even fall outside of the regulated space. These models may also raise challenges in relation to cross-border supervision, cooperation between different competent authorities, as well as legal responsibility for conduct, operational resilience of the entire value chain and prudential treatment.
3. This call for evidence aims to collect evidence on new material developments in the evolution and fragmentation of value chains and the extent to which this phenomenon introduces new risks and/or create regulatory and supervisory challenges.

**Questions**

1. Do you observe changes in value chains for financial services (e.g., more fragmented value chains) as a result of technological innovation or the entry of technology firms? How different is the situation now when compared to pre-Covid?

<ESMA\_QUESTION\_DCFE\_2>

We have not observed developments of Big Techs in Europe compared to developments in Asia, where big platforms offer the possibility to place dormant cash in money market funds to receive interests (ESMA Report on Trends, Risks and Vulnerabilities, 1/2020, p. 50, RA.13). However, although in early stages, the Distributed Ledger Technology (DLT) and especially the more advanced blockchains providing the possibility of smart contracts might lead to a shortening and fragmentation of traditional value chains in the markets of traditional financial intermediaries. The disruptive technologies of DLT include opportunities for new business models for exchanges but can also raise considerable risks concerning investor protection if completely left unregulated. We, therefore, welcome the MiCA initiative of the Commission to regulate non-financial cryptoassets, while applying the MiFID II/R framework to financial cryptoassets. The policy from the Digital Finance Package ensures the ‘same business, same risk, same rules’ principle and provides a technology-neutral sandbox approach by the DLT Pilot Regime to explore the opportunities of new technologies in financial markets.

Further, we see a trend of “Decentralized Finance” (DeFi) emerging with financial products built on Distributed Ledger Technology (DLT) networks, often on public blockchains. Financial services are offered via pure peer-to-peer layers to (retail-) clients without a central intermediary implying certain rules automatically (e.g. on the basis of programmed smart contracts). These new and innovative concepts are attracting growing interest. To grasp the full potential of this development, it is necessary to ensure a certain level of protection for consumers/investors.

<ESMA\_QUESTION\_DCFE\_2>

1. Do you consider that financial firms are increasingly relying on technology firms to fulfil critical or important functions? If so, for which particular functions? Are there particular types of technologies (e.g., BigData, artificial intelligence, cloud computing, others) and technology firms involved?

<ESMA\_QUESTION\_DCFE\_3>

Cloud markets offer technological solutions for financial institutions to innovate, flexible scale-up, save costs through the application of pay per use models and should be supported in general. We acknowledge the limited number of providers, but to favour innovation and not lose competitiveness on the international level, it is crucial that the EU market remains open to non-EU cloud service providers.

Further, firms are already subject to the ESAs and NCAs supervision when it comes to outsourcing, regardless of the technology used. Therefore, firms conduct proper risk management. On a general note, we welcome the Commission´s proposal of DORA (see e.g. Art 25, 26, 29 or 31) and ESMA´s outsourcing guidelines (Guideline 2, 9) from 2020, which tackle this issue as well. These regulatory/supervisory frameworks will further support the use of Cloud technology in the financial sector.

Artificial Intelligence tools are also deployed by financial markets in, for example, market surveillance operations in order to detect suspicious trades and prevent insider trading and market manipulation. However, such tools are provided by a range of technology firms other than Big Techs, often by small and highly specialised companies.

<ESMA\_QUESTION\_DCFE\_3>

1. Do you have examples of technology companies providing financial services in the EU, either directly or through arrangements with financial firms? If so, please briefly describe their business model and the type of financial services that they provide.

<ESMA\_QUESTION\_DCFE\_4>

We see large technology companies providing payment services in the area of e-commerce in cooperation with established financial institutions. Also, we see technology companies cooperating with financial institutions in the realm of asset management (“robo-advisor”). Further, in non-EU jurisdictions, we notice large technology companies acting as “one-stop-shop” offering financial and non-financial services.

We believe that every market participant offering financial services should be required to follow “same risks, same business, same rules” as other service providers, regardless of the technology used. However, in principle, this kind of cooperation between technology and financial firms can bring innovation and should therefore not only be seen as a risk.

<ESMA\_QUESTION\_DCFE\_4>

1. Do you have examples of technology companies being used by financial institutions in the EU to fulfil critical or important functions? If so, please briefly describe their business model and the way in which they contribute to, or facilitate, these critical or important functions.

<ESMA\_QUESTION\_DCFE\_5>

As stated above, financial institutions use cloud service providers for their various services (PaaS, SaaS, IaaS). This topic is already addressed by regulators within the recent DORA proposal from the Commission and ESMA cloud guidelines.

<ESMA\_QUESTION\_DCFE\_5>

1. Do you see changes in the way or extent to which financial market data are being collected, used and disseminated by unregulated data service providers?

<ESMA\_QUESTION\_DCFE\_6>

Euronext has observed significant changes in the way market data is being collected, used, and disseminated, not only within unregulated data service providers but also across the complete market data value chain. In general, there has been a big shift in consumption of data from display to non-display activities reflecting the ongoing automation of activities using market data (including algorithmic trading) driven through technological developments and complex trading algorithms, some with machine-learning capabilities. These new data users (e.g. quant, robotic, and artificial intelligence systems) require constant investments in hardware and software by trading venues in order to keep up with the new technologies used by these systems. The industry is currently in a transition period from a human-driven world (terminal use of data) into a more digital-driven world (electronic use of data).

Besides a shift in consumption of data from display to non-display activities, also new types of unregulated data providers are emerging with a different (new) type of earnings models. In a vast majority of cases, if a website displays market data, the website derives commercial benefits from it, such as search engines, online platforms, and media/TV companies as well as financial institutions driving footfall to attract customers to other paid services. The revenue model might be indirect (e.g. advertising with the number of clicks, or the number of subscriptions from the same page where traffic converged thanks to market data). Furthermore, Big tech companies are now also entering the data products market by offering and disseminating the market data over the cloud that has the potential to become the new market places for financial market data.

Euronext encourages ESMA to clarify the concept of “data service providers” in order to understand if they would be subject to the existing EU regulatory framework or if they are left unregulated.

<ESMA\_QUESTION\_DCFE\_6>

1. What implications, if any, do changes in value chains (e.g., more fragmented value chains) have on your own activities? To which extent are you taking an active role in these changes?

<ESMA\_QUESTION\_DCFE\_7>

The usage of third-party service providers allow market operators to provide core services more efficiently and a reduction of costs. The adoption of new technologies creates additional growth opportunities, fosters operating efficiency, and enhances customer experience. Exchanges will continue to invest in cloud technology, distributed ledger technology (DLT), and other clearly defined areas.

As a general remark, in the fast-changing world of new technologies, it often makes sense for financial firms to incorporate the specialized knowledge of third-party service providers to offer better services to clients. Some of this knowledge/expertise would be difficult to adhere to for every financial firm at the same level. Furthermore, this also contributes to a high level of security as third-party service providers must provide state of the art technology when it comes to security, to be competitive.

<ESMA\_QUESTION\_DCFE\_7>

1. Do you see new or exacerbated risks (e.g., to investor protection, financial stability, market integrity, security or level playing field) in relation to the reliance on technology firms by financial firms?

<ESMA\_QUESTION\_DCFE\_8>

As a general remark, we would highlight that the principles of technology neutrality, level playing field, and “same business, same risks, same rules” should apply to uphold the values of transparency, fairness, stability, investor protection, and market integrity.

Cloud services are becoming increasingly important for trading venues. In today’s practice, financial entities use third-country service providers as a common practice. We recognise the limited number of providers but, to favour innovation and not lose competitiveness on an international level, it is crucial that the EU market remains open to non-EU cloud service providers. Acknowledging the context, we would like to put emphasis on the asymmetries of power in negotiation between customer and service providers (i.e. the extraordinary efforts and time required to agree on regulatory compliant contracts with cloud services providers in the financial sector). Therefore, we actively support the EU´s work on regulatory minimum standards to be included in contracts with critical third-party service providers included in the Digital Operational Resilience Act (DORA) and the Commission proposal to design “Voluntary Standard Contract Clauses” to facilitate future negotiations.

<ESMA\_QUESTION\_DCFE\_8>

1. Do you see new or exacerbated risks (e.g., to investor protection, financial stability, market integrity, security or level playing field) in relation to the provision of financial services by technology companies?

<ESMA\_QUESTION\_DCFE\_9>

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<ESMA\_QUESTION\_DCFE\_9>

1. Do you see new or exacerbated risks (e.g., to investor protection, financial stability, market integrity, security or level playing field) in relation to the collection, use and dissemination of financial market data by unregulated data service providers?

<ESMA\_QUESTION\_DCFE\_10>

Euronext sees new risks in relation to the collection, use, dissemination, and consumption of financial market data by and through unregulated data service providers. The majority of financial market data is consumed through unregulated market data providers. For instance, trading venues’ market data is often aggregated and complemented by market data redistributors and vendors. As such, ESMA rightly acknowledged in 20141 that there is a risk that any price reduction at the trading venue level will not be passed on to the end-users and noted that data vendors and connectivity providers are not within the scope of MiFID II/MiFIR.

The vast majority of users source their data indirectly from non-regulated intermediaries and most of those do not support granular data disaggregation. We believe that the value chain for market data should be taken into account when assessing market data pricing.

In addition, there is a large share of OTC data which represent a risk for investors and the quality of the market in general. Lack of quality OTC data makes it difficult for unregulated data providers to offer such data to clients, resulting in less transparent markets. Furthermore, the lack of OTC data quality will prevent the emergence of a consolidated tape that can be useful for investors. Therefore, OTC data quality should be brought up to the same standard as that of trading venues.

*1ESMA. “Technical Advice to the Commission on MiFID II and MiFIR.” Paris, 2014.*

<ESMA\_QUESTION\_DCFE\_10>

1. Do you consider that some adaptations to the EU regulatory framework are needed to address the risks brought by changes in value chains?

<ESMA\_QUESTION\_DCFE\_11>

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<ESMA\_QUESTION\_DCFE\_11>

1. Do you consider that some adaptations to the EU regulatory framework are needed to unlock the benefits brought by changes in value chains?

<ESMA\_QUESTION\_DCFE\_12>

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<ESMA\_QUESTION\_DCFE\_12>

1. Do you consider that there is a need to enhance supervisory practices, e.g., cross-border or cross-sectoral cooperation, in relation to changes in value chains?

<ESMA\_QUESTION\_DCFE\_13>

Euronext believes that coordination between the authorities on all levels becomes increasingly important. However, we would also highlight the need for increased efficiency in contrast to adding more complexity. We acknowledge the work of the EU institutions on DORA to address possible concentration risks if many financial institutions rely on the same third-party service provider, especially with regards to big techs. In such cases, systemic risks of the financial sector could swap over to these critical third-party service providers. Further, sector-specific rules should have precedence over cross-industry rules (e.g. NIS2 / CER), therefore a “lex specialis approach” should be taken.

From a more general perspective, this oversight approach could be used as a blueprint for big techs activities also in other sectors. Small EU countries might not possess the necessary resources for in-depth oversight activities of Big techs. Instead, it should safeguard the approach of “same activity, same risk, same rules”, enforcing the existing and upcoming rules (Digital Markets Act (DMA) and Digital Service Act (DSA)) also to these new platform companies. The European oversight approach for the financial sector could be adapted also for other sectors.

With regards to regulatory data supervision, we agree that templates and formats for reporting requirements need to be harmonised. Financial Markets Infrastructures (FMIs) are subject to strict and detailed incident reporting requirements, which are mandated by their primary regulator in the jurisdiction they operate in. This regime has been in place for many years and has worked well so far. Changing the approach to create a centralised reporting structure, while seemingly an attractive option because of the uniformity, might, in reality, introduce issues due to lack of familiarity with and understanding of local markets. Primary financial regulators should remain responsible for FMIs in the jurisdiction they operate in. Furthermore, regulators across multiple jurisdictions should work to harmonise their testing requirements.<ESMA\_QUESTION\_DCFE\_13>

1. Which recommendations, if any, would you make to EU regulators/supervisors to address opportunities and challenges brought by changes in value chains?

<ESMA\_QUESTION\_DCFE\_14>

As technologies and use-cases are currently evolving rapidly, it is difficult for any rule-setting authority to act properly, without accurate and up-to-date information about the trends in the markets. From the perspective of market participants, this can lead to uncertainty about whether and how the use of any new technology and the corresponding products and services are/will be regulated. In consequence, this uncertainty on both ends can delay investments and prevent economic growth or even lead to an unordered situation, which can be at the expense of the consumers and to the detriment of trust in new technologies. Experience from Euronext indicates that the constant dialogue between companies/business associations and regulators/competent authorities is a beneficial solution for this problem. Companies are called to explain their concrete use-cases to authorities, in order not only to make them aware of new trends but also to support the evolvement of the regulatory framework. As a precondition, authorities should have the capacity to be involved effectively in these discussions, to process the information and to provide a clear regulatory framework addressing possible risks without hampering innovative developments.

<ESMA\_QUESTION\_DCFE\_14>

1. Do you have any other observations or comments in relation to changes in value chains?

<ESMA\_QUESTION\_DCFE\_15>

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<ESMA\_QUESTION\_DCFE\_15>

# Platforms and bundling of various financial services

1. Platforms can market and provide access to multiple different financial services, often from different financial firms. Different financial firms can also partner with technology firms to bundle a range of financial services which are then distributed through digital channels.
2. The financial firms and platform providers are not always part of the same group and sometimes operate in different EU Member States or third countries. In addition, the different financial services bundled on the platform may fall under separate sectorial regulations or outside of the scope of the EU financial services regulatory perimeter, which can leave certain risks unaddressed and raise specific supervisory challenges.
3. A more holistic approach to the regulation and supervision of these platforms and bundled services could be relevant, considering the increased risk that they can pose, regarding e.g. interaction with consumers and consumer protection, conduct of business, money laundering and operational risk.
4. The CfE is intended to help ESMA collect insights on the use of digital platforms in the EU the extent to which this phenomenon introduces new risks and/or create regulatory and supervisory challenges.

**Questions**

1. Do you have examples of platforms bundling different financial services from different financial firms in the EU? If so, please provide a brief description of the most prominent ones.

<ESMA\_QUESTION\_DCFE\_16>

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<ESMA\_QUESTION\_DCFE\_16>

1. Do you consider that the use of platforms by financial firms for the marketing or the conclusion with customers of financial products and services is widespread in the EU? Do you observe an increase in the use of platforms compared to pre-Covid?

<ESMA\_QUESTION\_DCFE\_17>

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<ESMA\_QUESTION\_DCFE\_17>

1. (To financial firms) As a financial firm, are you using platforms for the marketing or the conclusion with customers of your financial products and services? If yes, please provide a brief description of(i) the types of services provided by the platform, (ii) the arrangement in place with the platform (e.g., are you or the platform responsible for the governance and/or maintenance of the technical infrastructure and the interactions with customers), (iii) the extent and way in which the arrangement is disclosed to the customer, (iv) the tools and processes in place to ensure that the risks attached to the financial products and services are properly disclosed to the customers.

<ESMA\_QUESTION\_DCFE\_18>

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<ESMA\_QUESTION\_DCFE\_18>

1. (Same question to platforms) As a platform, do you facilitate the marketing or the conclusion with customers of financial products and services? If yes, please provide a brief description of(i) the types of services provided to financial firms, (ii) the arrangement in place with the financial firms (e.g., are you or the financial firm responsible for the governance and/or maintenance of the technical infrastructure and interactions with customers), (iii) the extent and way in which the arrangement is disclosed to the customer, (iv) the tools and processes in place to ensure that the risks attached to the financial products and services are properly disclosed to the customers.

<ESMA\_QUESTION\_DCFE\_19>

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<ESMA\_QUESTION\_DCFE\_19>

1. Which key opportunities and challenges do you see in relation to the use of platforms by financial firms?

<ESMA\_QUESTION\_DCFE\_20>

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<ESMA\_QUESTION\_DCFE\_20>

1. Do you consider any of the following risks to be new/exacerbated where financial firms use platforms for the marketing or conclusion with customers of contracts for financial products and services? Please explain(i) risk to financial stability, (ii) risk to investor protection, (iii) risks in relation to conduct of business, (iv) ICT and security risks, (v) money laundering / terrorism financing, (vi) risk to data protection and privacy, (vii) risk to fair competition, (viii) market manipulation, or (ix) other risks.

<ESMA\_QUESTION\_DCFE\_21>

On a general note, Euronext believes that a predictable, consistent and straightforward legal environment should be promoted. As already reiterated, technology neutrality and “same business, same risks, same rules” principles should apply to uphold the values of transparency, fairness, stability, investor protection, and market integrity.

It is important to find a careful balance between “data privacy” and the use of data for public interests. Society can benefit from the larger use of data from various sources, allowing for analysis and monitoring for research and developments purposes. However, not all data can be considered as a ‘common good’ and it is fundamental to consider the incentives that the data originator needs to have in order to produce innovative and valuable data, including a satisfactory yield on their investments. It is, therefore, important not to create disincentives towards data collection/standardisation and product developments, i.e. allowing for commercialisation of data.

<ESMA\_QUESTION\_DCFE\_21>

1. (For financial firms) Which controls, and processes are in place to oversee the specific risks emerging from the use of platforms?

<ESMA\_QUESTION\_DCFE\_22>

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<ESMA\_QUESTION\_DCFE\_22>

1. Do you consider that some adaptations to the EU regulatory framework are needed to address the risks brought by the use of platforms?

<ESMA\_QUESTION\_DCFE\_23>

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<ESMA\_QUESTION\_DCFE\_23>

1. Do you consider that some adaptations to the EU regulatory framework are needed to unlock the benefits brought by the use of platforms?

<ESMA\_QUESTION\_DCFE\_24>

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<ESMA\_QUESTION\_DCFE\_24>

1. Does the use of platforms give rise to any challenges regarding the cross-border supervision of financial sector activities in the EU? Do you consider that there is a need to enhance supervisory practices, including convergence measures, in relation to the use of platforms?

<ESMA\_QUESTION\_DCFE\_25>

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1. Which recommendations, if any, would you make to regulators/supervisors to address opportunities and challenges brought by the use of platforms?

<ESMA\_QUESTION\_DCFE\_26>

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<ESMA\_QUESTION\_DCFE\_26>

# Risks of groups combining different activities

1. Large technology companies active in various sectors and forming mixed-activity groups increasingly enter the financial services sector, including through the establishement of their own subsidiaries for the provision of financial services. These groups can quickly scale up the offerings in financial services leveraging on vast amounts of customers’ data collected through their affiliated entities and elevating intra-group dependencies on operating systems and processes. The capacity to use intra-group data and other processes within the group to support the provision of financial services raises challenges in relation to conduct, prudential and systemic risks and a possible detrimental effect to the level playing field between entities providing the same financial services as a part of a group versus a single entity.
2. Even though existing sectoral financial legislation already embeds approaches for group supervision, it does not provide a framework for coordinated supervision on a cross-sectoral basis for emerging types of mixed activity groups, as their financial activities usually represent only a limited share of their total balance sheet. Even when a group has a specialised financial subsidiary undertaking within its group, sectoral financial legislation would only apply to that subsidiary undertaking, with limited possibilities to supervise and prevent risks stemming from the interactions between the financial subsidiaries and the broader group.
3. The new emerging risks in relation to mixed-activity groups that build up substantial market share in financial services may not be captured by the existing EU legislation and by supervisory practices limited to regulated entities in the mixed-activity groups.
4. The call for evidence aims to collect evidence on whether (i) large technology companies as mixed-activity groups should be supervised specifically, (ii) how interdependencies withing the groups, and potential risks stemming from, can be identified and adressed, and (iii) how supervisory cooperation can be improved for these groups.

**Questions**

1. Are you aware of mixed activity groups (MAGs), including BigTech groups, whose core business is not financial services but that have subsidiary undertakings that provide financial services in the EU?

<ESMA\_QUESTION\_DCFE\_27>

Euronext wishes to request clarifications surrounding the concept of mixed activity groups (MAGs). Whilst we understand that the Commission aims to provide a framework for coordinated supervision on a cross-sectoral basis for emerging types of mixed activity groups, FESE would caution against separating individual ‘financial firms’ to ‘MAGs’ based on pre-defined activities that would be undertaken. The latter would risk undermining the principle of “same business, same risks, same rules”.

<ESMA\_QUESTION\_DCFE\_27>

1. Which types of financial services do these entities provide?

<ESMA\_QUESTION\_DCFE\_28>

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<ESMA\_QUESTION\_DCFE\_28>

1. In such MAGs, how and to what extent the dependency of a subsidiary financial firm on its parent company and/or other subsidiaries of the same group influences the provision of the financial service?

<ESMA\_QUESTION\_DCFE\_29>

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<ESMA\_QUESTION\_DCFE\_29>

1. Do you see new or exacerbated risks in relation to MAGs?

<ESMA\_QUESTION\_DCFE\_30>

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<ESMA\_QUESTION\_DCFE\_30>

1. Do you consider that there is a risk of unlevel playing field between individual ('solo') financial firms and MAGs?

<ESMA\_QUESTION\_DCFE\_31>

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<ESMA\_QUESTION\_DCFE\_31>

1. In your opinion, is the current EU regulatory framework adequate for MAGs?

<ESMA\_QUESTION\_DCFE\_32>

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<ESMA\_QUESTION\_DCFE\_32>

1. Do you consider there is a need for new cooperation and coordination arrangements between financial supervisors and other authorities (data, competition, consumer protection, AML/CFT, cyber) within the EU and/or with 3rd countries in order to ensure effective supervision of MAGs?

<ESMA\_QUESTION\_DCFE\_33>

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<ESMA\_QUESTION\_DCFE\_33>

1. [Digital finance package | European Commission (europa.eu)](https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en) [↑](#footnote-ref-1)
2. <https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/210202-call-advice-esas-digital-finance_en.pdf> [↑](#footnote-ref-2)
3. For a detailed introduction on how BigTech firms are entering the financial services sector and the possible challenges and benefits associated with this development, please have a look at [ESMA’s ‘Trends, Risks and Vulnerabilities report 1/2020’](https://www.esma.europa.eu/sites/default/files/library/esma_50-165-1040_trv_no.1_2020.pdf). [↑](#footnote-ref-3)
4. The EC is also asking EBA for input in the areas of protection of client funds and non-bank lending. [↑](#footnote-ref-4)
5. https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/digital-markets-act-ensuring-fair-and-open-digital-markets\_en [↑](#footnote-ref-5)
6. https://ec.europa.eu/info/publications/200924-digital-finance-proposals\_en [↑](#footnote-ref-6)
7. [https://www.eba.europa.eu/financial-innovation-and-fintech/fintech-knowledge-hub/regtech-industry-survey](https://eur02.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.eba.europa.eu%2Ffinancial-innovation-and-fintech%2Ffintech-knowledge-hub%2Fregtech-industry-survey&data=04%7C01%7CClaudia.FernandezGarcia%40esma.europa.eu%7C82cd95d1500c4e54e94f08d90e21aad4%7Ce406f2684ae74c80899402493da00c03%7C0%7C0%7C637556360043904822%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C1000&sdata=dE7BJ3QNMEZoxDX2LYv8dhkKYzpDzkCuq%2FrwiF8K9TA%3D&reserved=0) [↑](#footnote-ref-7)
8. [EIOPA (2020). Discussion Paper on the (re)insurance value chain and new business models arising from digitalization](https://www.eiopa.europa.eu/sites/default/files/publications/consultations/discussion-paper-on-insurance-value-chain-and-new-business-models-arising-from-digitalisation.pdf). [↑](#footnote-ref-8)