

Press Release

ESMA assesses DLT's potential and interactions with EU rules

The European Securities and Markets Authority (ESMA) has issued today a [report](#) on Distributed Ledger Technology (DLT). The report sets out ESMA's view on DLT, its possible applications, benefits, risks and how it maps to existing EU regulation. ESMA's position is that regulatory action is premature at this stage, considering that the technology is still at an early stage.

ESMA believes that DLT could bring a number of benefits to financial markets, including more efficient post-trade services, enhanced reporting capabilities and reduced costs. ESMA expects the early applications of DLT to focus on optimising processes using the current market structure. Likely first areas of use may be less automated processes in low volume market segments and processes with minimum dependency on the existing legal framework.

Challenges ahead

ESMA, as well as identifying the benefits, also points to some important challenges for DLT in terms of interoperability, governance and privacy issues and risk creation. These challenges would require further attention before any large-scale use of DLT across the financial services sector. An important point for the technology's advocates and developers to be aware of are the existing rules and their application to DLT. The development of a new technology, such as DLT, does not liberate users from complying with the existing regulatory framework, which provides important safeguards to ensure the stability and proper functioning of financial markets.

However, drawing on the responses to its Discussion Paper, ESMA's view is that the current EU regulatory framework does not represent an obstacle to the use of DLT in the short term. Meanwhile, a number of concepts or principles, such as the legal certainty attached to DLT records or settlement finality, may require clarification. In addition, ESMA points out that beyond pure financial regulation, broader legal issues, such as corporate law, contract law, insolvency law or competition law, may affect the deployment of DLT.



At this stage, it is premature to fully assess the changes that the technology could bring and the regulatory response that may be needed, given that the technology is still evolving and practical applications are limited both in number and scope.

ESMA will continue to monitor market developments around DLT to assess whether a regulatory response may be needed. Active engagement from regulators and coordination at EU and international level are paramount in ESMA's view to ensure both that DLT does not create unintended risks and that its benefits are not hindered by undue obstacles. Meanwhile, ESMA believes that the industry should work towards solutions to address the challenges posed by the technology.

Background

Distributed ledgers - sometimes known as *blockchains* - are essentially records, or ledgers, of electronic transactions. Their uniqueness lies in the fact that they are maintained by a shared or *distributed* network of participants and not by a centralised entity as in current common market practice. Another distinguishing feature is the extensive use of cryptography to store assets and validate transactions. While the *blockchain* was originally designed for Bitcoins, the innovation has spread to traditional financial services.

ESMA began analysing virtual currencies in 2013 and subsequently also looked into investments using virtual currencies or DLT, including possible risks and benefits, on which ESMA consulted publicly before finalising this report.



Notes for editors

1. [ESMA 2017 report on DLT](#)
2. [ESMA Discussion Paper on Distributed Ledger Technology](#)
3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

1. assessing risks to investors, markets and financial stability;
 2. completing a single rulebook for EU financial markets;
 3. promoting supervisory convergence; and
 4. directly supervising specific financial entities.
4. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board (ESRB), and with national authorities with competencies in securities markets (NCAs).

Further information:

Reemt Seibel

Senior Communications Officer

Tel: +33 (0)1 58 36 42 72

Email: press@esma.europa.eu