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Market infrastructures on blockchain technology: publication of the European Pilot Regime regulation

The European regulation “Pilot Regime” applies to market infrastructures based on a distributed ledger technology. This regulation, published in the Official Journal of the European Union on June 2, 2022, will enter into force on March 23, 2023.

Developing a secondary market for security tokens

The Pilot Regime, which will initially run for three years, and may later be extended to six years, differs from other digital finance measures in the sense that it offers targeted regulatory exemptions to: MiFID II, the Finality Directive, and the Central Securities Depositories Regulation (CSDR), for the purpose of testing blockchain technology in financial markets and post-trade activities.

By temporarily lifting certain requirements of existing regulatory frameworks, Pilot Regime allows market infrastructure operators, and new entrants, to operate a multilateral trading facility (MTF) and/or a settlement system (SS) using blockchain technology, for tokenised financial instruments (or “security tokens”).

This regime, which was proposed by the European Commission as one of a series of digital finance measures in Europe, is innovative in that, for the first time, a directly applicable European regulation will authorise, upon certain conditions, certain market participants to be exempted from certain standard regulatory requirements. It will provide regulators

(national and European) and market participants with significant experience on how to use blockchain technology in financial market activities.

DLT market infrastructures

Pilot Regime defines a new category of participants: market infrastructures using Distributed Ledger Technology (“DLT”). This category covers three distinct participants authorised, by the national authorities of an EU Member State, to operate under this regime:

- DLT multilateral trading facilities (“DLT MTF”), which are multilateral trading facilities for tokenised securities that only admit trading of DLT financial instruments;
- DLT settlement systems (“DLT SS”), which are settlement systems for security tokens that settle transactions in DLT financial instruments;
- DLT trading and settlement systems (“DLT TSS”), a new participant, not previously provided for by financial regulations, providing the services of both a DLT MTF and a DLT SS, by allowing a single entity to combine trading and settlement of security tokens.

The regulation limits the scope of this experimental area to certain financial instruments with a cap on their market value.

Next steps

Before the regulation comes into force, several steps must still be completed:

- The European Securities and Markets Authority (ESMA) needs to publish various guidelines and amend technical standards of MiFIR and CSDR to accommodate the Pilot Regime.
- European Union Member States must decide which national authority will be responsible for granting authorisations and regulatory exemptions under the Pilot Regime. In France, this responsibility could be shared between the Autorité des Marchés Financiers (AMF), the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and the Banque de France. To simplify the authorisation process for market participants, a “one-stop shop” principle is envisaged so that they will not have to deal with several authorities.
- Lastly, amendments to national regulations are expected in the area of securities law, which remains a national responsibility not harmonised by European law. In France,

according to a report published on November 27, 2020 by the Haut Comité Juridique de la Place Financière de Paris (HCJP), the draft Pilot Regime regulation has prompted the HCJP to revive its work in this area. Amendments to the law and regulations on securities registered on a distributed ledger technology are planned to surface in the coming months to accommodate the roll-out of the Pilot Regime. The bills and draft regulations should be submitted publicly for consultation with Paris-based financial market participants.

Dialogue: Come meet the AMF

The Autorité des Marchés Financiers (AMF) is fully committed to developing a European strategy for digital finance and regularly organises meetups with project leaders to discuss technological innovations. The AMF encourages potential applicants to read the regulation and contact the regulator to prepare for Pilot Regime by using the following link:

[Contact Innovation and Digital Finance](https://www.amf-france.org/en/professionals/fintech/my-relations-amf/discuss-amf-about-my-project/information-request) URL = [https://www.amf-france.org/en/professionals/fintech/my-relations-amf/discuss-amf-about-my-project/information-request]

Read more

- Regulation (UE) 2022/858 of the European Parliament and of the Council of 30 May 2022 on a pilote regime for market infrastructures based on Distributed
 - ↳ Ledger Technology
 - ↳ ESMA : Call for evidence – Pilot Regime
- AMF- Review and analysis of the application of financial regulations to security
 - ↳ tokens
 - ↳ Innovation : focus on the actions carried out by the AMF

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