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PROGRAMME

THE **EUROFI** HIGH LEVEL SEMINAR 2018

SOFIA | 25, 26 & 27 APRIL

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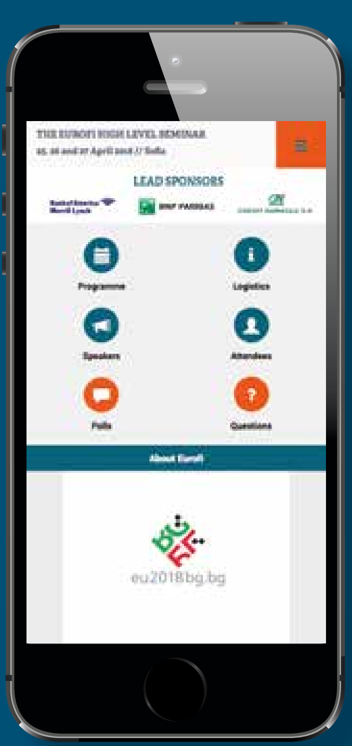

The **Eurofi** High Level Seminar **2018**

SOFIA | 25, 26 & 27 April

PROGRAMME

DAY 1 | 25 APRIL AFTERNOON

MACRO-ECONOMIC AND POLITICAL CHALLENGES

Sofia Room (1st floor)	**Sredetz Room** (ground floor)
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The backgrounds in this programme were drafted by Didier Cahen, Marc Truchet and Jean-Marie Andrès as a basis for the discussions of the Eurofi Sofia Seminar and do not engage in any way the Bulgarian authorities or the speakers taking part in this seminar.

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DAY 1 I 25 APRIL AFTERNOON

13:15 to 13:30 | Sofia Room

Opening remarks

SPEAKERS

Welcome remarks

David Wright
President, EUROFI

Didier Cahen
Secretary General, EUROFI

Opening remarks

Vladislav Goranov
Minister of Finance, Republic of Bulgaria

13:30 to 13:45 | Sofia Room

Speech : **Economic convergence and resilience in the EU27 and Eurozone**

SPEAKER

Isabell Koske
Deputy Director, OECD

DAY 1 I 25 APRIL AFTERNOON

13:45 to 14:00 | Sofia Room

Exchange of views: How to foster EU banking integration?

More integrated banking markets would foster more effective capital allocation and private risk sharing across the EU, which are essential to absorb potential asymmetric economic shocks and move towards a genuine Economic and Monetary Union.

The objective of this conversation is to explain the low level of cross-border consolidation in Europe and to discuss the possible measures which could foster EU banking integration.

SPEAKERS

Chair

David Wright
President, EUROFI

Discussants

Philippe Bordenave
Chief Operating Officer, BNP Paribas
Paul Hilbers
Director Financial Stability, De Nederlandsche Bank

POINTS OF DISCUSSION

How to explain the low level of cross-border consolidation and integration in the banking union? Can further progress be expected in the short term?

How to foster more integration in the EU banking market and address the obstacles that currently hinder further integration (e.g. lack of trust between Member States, EU bank regulatory frameworks considering the EU subsidiaries of banking groups on a solo basis, limitations in the BRRD to group support, different treatment of creditors of the same rank in case of failure of transnational banking group...)?

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DAY 1 | 25 APRIL AFTERNOON

14:00 to 14:45 | **Sofia Room**

Vulnerabilities in global and EU financial markets

The objective of this plenary session is to discuss generally the vulnerabilities that may affect the resilience of the EU and the global financial system, whether these vulnerabilities are appropriately addressed with existing tools and institutions and if additional actions are needed.

Other sessions will address more specifically vulnerabilities associated with asset management activities, CCPs, indebtedness, technologies and cyber security…

SPEAKERS

Chair

Gaston Gelos
Assistant Director, Monetary and Capital Markets Department, IMF

Public Authorities

Rostin Behnam
Commissioner, U.S. CFTC

Francesco Mazzaferro
Head of the Secretariat, ESRB

Luiz Awazu Pereira da Silva
Deputy General Manager, BIS

Jesús Saurina Salas
Director General, Financial Stability, Regulation and Resolution, Banco de España

Industry Representatives

Andrei Magasiner
Treasurer, Bank of America

POINTS OF DISCUSSION

What are the main vulnerabilities in the financial sector at the EU and global levels (increasing protectionism, level of indebtedness, crypto currencies, asset bubbles, leverage or liquidity issues…)? What are the main activities / products / players concerned?

What are the most important underlying factors / drivers of these vulnerabilities?

Are existing regulations and supervisory arrangements sufficient to mitigate these vulnerabilities?

BACKGROUND PREPARED BY EUROFI

Global growth has broadened and strengthened during the past 18 months but different risks could threaten the sustainability of expansion in the medium term:

Risk to global economy from U.S. protectionism

Trade protectionism remains a key risk that would negatively affect confidence, investment and jobs. Indeed tit-for-tat trade barriers in response to the Trump administration's tariffs on steel and aluminum threaten to pull the rug from under a strengthening global economy. The risk is obviously that the deterioration in US foreign trade could lead to an extension of these protectionist measures and to reprisals from other countries. A rise in tariffs between the US and its trading partners would snuff out the positive effects on US growth of the Trump tax cuts and threaten to damage the global economy.

Global indebtedness remains a major vulnerability of financial stability and may undermine global growth

The world economy has massively increased its leverage since the 2007-2008 crisis. Global debt – facilitated by easy monetary policy – has increased by 58 trillion $ from 2007 to 2015 (against an increase of 36 trillion from 2000 to 2007). High debt might become a significant drag on demand as interest rates normalize.

In fact that there has been no deleveraging since 2008, but rather a gradual, albeit substantial, increase in global debt to GDP. This debt overhang represents a financial risk to the stability of the system as monetary policy normalizes and a drag on long term growth.

The situation of financial markets is therefore fragile: Long term interest rates are increasing, equity values are high, bonds are still very highly priced and global indebtedness has never been as huge. This creates financial vulnerabilities, especially as monetary conditions tighten.

The search for yield has gone too far and could lead to significant market disruptions

According to the Global Financial Stability Report of the IMF (October 2017), the low-interest-rate environment has stimulated a search for yield in markets, pushing investors beyond their traditional risk mandates. This has compressed spreads, reduced the compensation for credit and market risk in bond markets, contributed to low volatility, and facilitated the use of financial leverage.

The US fiscal policy entails significant risks for the US and the major global economies

At a time when the unemployment rate is very low and the participation rate is no longer rising in the United States, the Trump administration is implementing a highly expansionary fiscal policy, which will lead to a fiscal deficit higher than 5% of GDP in 2019.

An expansionary fiscal policy at full employment is risky for the United States and global financial markets for at least two main reasons. First there is a risk of a sharp rise in interest rates and a reaction by the bond market to the fiscal deficit. Second the fiscal stimulus of demand for goods and services at full employment will drive up the fiscal deficit and the external deficit.

Monetary policy normalization raises a big issue in the Eurozone: the one of public debt

Since 2015, the ECB's quantitative easing programme and its low interest rate policy have substantially pushed down the financial costs of the euro area countries. However, public debt remains high, at around 90% of GDP in the euro area. Therefore, if and when monetary policy becomes less accomodative and interest rates rise, the cost of public financing of the Eurozone will feel the pressure: a rise in interest rates can have, indeed, a significant impact on budgetary outlays.

Is there enough fiscal and monetary policy firepower left to deal with another crisis?

If the world economy were to start decelerating (which is not impossible given the relatively high rate of actual growth as compared with potential growth), there would not be significant margins left to policy makers.

Budgetary solvency, weakened by very high debt ratios, could be threatened by the deceleration of growth or/and/ by higher interest rates. As for monetary conditions, they are still pretty loose. Interest rates are presently lower than growth rates. Therefore the margins for further loosening of monetary policy appear extremely limited.

Given the possibility of a slowdown of the advanced economies in not too distant a future, it seems that policy makers may not have sufficiently prepared for such a turnaround. Budgetary and monetary policies should normalize in good times in order to offer countercyclical cushions when expansion weakens.

New risks and remaining structural vulnerabilities to financial stability

Cyber security incidents have become a greater concern for the financial system

As the financial system relies more heavily on technology, the risk that significant cyber security incidents targeting this technology can prevent the financial sector from delivering services and impact financial stability increases. Cyber security incidents have the potential to disrupt operational and financial networks via three possible channels: an incident could disrupt the provision of key services, reduce confidence in firm and markets.

At the same time, several factors could increase the probability of an incident: the open structure of Internet, the emergence of crypto currencies and the legal liability of software developers.

Ongoing structural vulnerabilities

International supervisors have identified structural vulnerabilities in the financial system. These include: profitability prospects of many banks in the EU, concentrations of activities and exposures in CCPs; liquidity risks in the non-bank financial sector with potential spillovers to the broader financial system, asset management and activities; challenges to data quality; collection and sharing and financial innovation.

DAY 1 I 25 APRIL AFTERNOON

14:45 to 16:00 | Sofia Room

Resolution and liquidation of banking groups in the EU
(MREL & single liquidation regime)

The objectives of this session are to discuss the calibration of MREL requirements across different banks in Europe (GSIBs, purely domestic players etc.), the concerns of host countries regarding the EU crisis management framework and the possible way forward to effectively manage the potential resolution of transnational banking groups operating in the banking union area at group level and no longer entity by entity.

Speakers will be invited in particular to explain the implications raised by the absence of a single liquidation regime in the EU and to comment on the different proposals made by Eurofi toward such a regime.

SPEAKERS

Chair

Andrea Enria
Chairperson, EBA

Public Authorities

Elisa Ferreira
Vice-Governor, Banco de Portugal

Othmar Karas
MEP, ECON Committee, European Parliament

Elke König
Chair, SRB

Leena Mörttinen
Director General, Financial Markets Department, Ministry of Finance, Finland

Fernando Restoy
Chairman, Financial Stability Institute, BIS

Industry Representatives

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Managing Director, Head of Financial Services & Sovereign International Public Finance Ratings for EMEA region, S&P Global

Wilson Ervin
Vice Chairman, Group Executive Office, Credit Suisse

Jean Naslin
Executive Director, Head of Public Affairs, CaixaBank

Mark Venus
Head of Recovery and Resolution Planning, BNP Paribas

POINTS OF DISCUSSION

How MREL requirements should be calibrated across different banks (GSIBs, Less Significant Institutions and purely domestic players) to ensure resolvability whilst also maintaining a level playing field within each jurisdiction, within the EU and vis-à-vis overseas banks and also maintain a sustainable financing capacity for economic growth?

How to address the concerns of host supervisors who express the fear that their home creditors would be worst treated than the rest of financial groups' creditors in case of liquidation?

BACKGROUND PREPARED BY EUROFI

Before 2008, EU supervisors lacked the tools to implement an orderly restructuring of a bank that was failing or likely to fail. The Bank Recovery and Resolution Directive now requires Resolution Authorities in Europe to establish resolution plans to anticipate the restructuration needed in case of severe difficulties and set up a bail-in mechanism in which either debt is written down or liabilities are converted to equity according to a pre-defined hierarchy (equal to the insolvency hierarchy). On 16 June 2017, the EU Council agreed on the ranking of unsecured debt instruments in insolvency proceedings (bank creditor hierarchy), which introduces a new category of liabilities, the so called "senior non-preferred" liabilities in order to enhance legal certainty in the event of resolution.

The principle of these new European rules is to absorb bank losses by bailing-in shareholders and uninsured creditors. This does not mean that bail-out is fully excluded, as the new rules contain sufficient flexibility to deal with truly exceptional situations where public money may be required to stabilise the banking system.

Since the inception of the Banking Union much has been achieved and among these achievements there was the establishment of the Single Resolution Board. The Single Resolution Board is the resolution authority for significant banks and other cross-border groups within the Banking Union. The mission of the SRB is to ensure the orderly resolution of failing banks with minimum impact on the real economy and public finances of the participating Member States of the Banking Union.

On 7 June 2017, the Single Resolution Board adopted its first resolution decision, triggering the sale of Banco Popular to Banco Santander. The situation of the two small Italian banks in the Veneto region which were declared failing or likely to fail (FOLTF) by the ECB on the 23rd June was different and the two banks entered into the normal Italian insolvency proceedings. On 4 July, the Commission authorized the precautionary recapitalization of Monte dei Paschi di Siena – the first time after the BRRD entered into force.

The Commission's legislative proposal (November 2016) to integrate the international Total Loss Absorbance Capacity (TLAC) Standard of the Financial Stability Board (FSB) into the Bank Recovery and Resolution Directive (BRRD) and to create a two Pillar Minimum Requirement for Own Funds & Eligible Liabilities (MREL) system distinguishing between G-SIBs and other banks is still evolving.

Adequate levels of MREL are crucial to ensure the resolvability of banks and are a key instrument to replace bail-outs with bail-in and safeguard taxpayers' money. This the reason why a clear and stable definition of the this regulatory framework is an important step to ensure resolution authorities can determine the requirement and banks can comply with it through adequate issuance of debt or capital instruments.

Naturally, these requirements are not binding for the smallest institutions. To the extent that their failure would not have systemic repercussions, these institutions should be able to disappear from the market through regular insolvency proceedings. And for their part, the TLAC/MREL requirements should also, if correctly calibrated, not present major difficulties for more complex entities with experience issuing debt instruments in the market, although they can raise their financing costs to a certain degree.

A major issue is for the medium-sized institutions whose failure could have systemic repercussions, so that they must be subject to the new resolution framework, but whose business model - based on financing their lending activity primarily through capital and deposits - is not consistent with large issuance in the market for TLAC- or MREL-eligible instruments (such as subordinated or convertible debt). These intermediate institutions could come under significant pressure in the future.

It is thus possible that, in the long term, stringent MREL requirements may foster a restructuring of the sector into two well defined segments. First would be systemically important institutions that are able to issue on the market the liabilities required by the resolution regulations. Second would be a group of smaller institutions that would not perform essential functions themselves and could be subject to the established insolvency proceedings without generating adverse systemic effects.

Regulatory reform should also ensure that no difference of treatment should be made among the different creditors of a same group and that group support could be enforceable at European level giving thus a solid base for group solidarity. However the solo approach of the EU banking regulatory framework (CRD, CRR, BRRD) does not consider trans-national banking groups in the EU at the consolidated level, but as a sum of separate subsidiaries, and this was not reviewed when the banking Union was implemented. In other words, the EU legislation only recognizes legal entities and not banking groups. A liquidation of banking groups or part of them is therefore conducted entity by entity under domestic insolvency regimes. This situation can lead to an uneven treatment of the creditors of the group which remains dependent on the insolvency legislation of the country where the liquidated entity of the group is located.

While supervisory and resolution decisions are taken at the European level, the consequences of potential bank liquidations are still national. In such a context, national considerations continue to affect regulatory and supervisory decisions.

Therefore more regulatory reform is needed to move forward. An unconditional financial solidarity among the different entities of these banking groups has to go hand in hand with a liquidation conducted at group level and no longer entity by entity. This is the only way to achieve a situation where no difference of treatment is made among the different creditors of a same group in case of failure and to allow a trans-national group to pool its available cash and to calculate liquidity and solvency requirements at the group level (see Eurofi paper related to the "Proposals for Member States to benefit from private risk sharing within the Banking Union"). Only such a regulatory reform would make banks European not only in life but also in death, and definitively address the current fragmentation issues in the EU banking market, which impair the functioning of the Banking Union.

DAY 1 I 25 APRIL AFTERNOON

14:45 to 15:45 Sredetz Room

Tackling vulnerabilities from asset management activities

The objective of this session is to assess whether the risks associated with asset management activities at the individual fund and systemic levels are appropriately mitigated by existing legislations and to discuss the improvements that can be expected in particular from the latest IOSCO guidelines for mitigating liquidity risks and the recommendations made by the ESRB to improve the macroprudential perspective of the EU investment fund framework.

SPEAKERS

Chair

Francesco Mazzaferro
Head of the Secretariat, ESRB

Public Authorities

Paul P. Andrews
Secretary General, IOSCO

Joe V. Bannister
Chairman, FSA, Malta

Felix Hufeld
President, BaFin

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Industry Representatives

Frédéric Bompaire
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Dennis Gepp
Senior Vice President, Managing Director and Chief Investment Officer, Cash, Federated Investors (UK) LLP

Michael Rüdiger
Chief Executive Officer, DekaBank Deutsche Girozentrale

POINTS OF DISCUSSION

Do existing EU fund legislations allow tackling the main risks posed by investment fund activities? What further improvement can be expected from the new IOSCO liquidity guidelines and do these raise any questions? What further guidance might be needed?

What impacts can be expected from the proposals made by the ESRB to develop the macro-prudential perspective of the EU fund framework? Can these proposals help to better address systemic risks? Do they raise any questions? How is the macro-prudential perspective of fund or investment product regulation addressed in other jurisdictions?

The growth of the asset management sector is welcomed but raises potential financial stability concerns

The strong growth of the asset management (AM) sector over the past decade is welcomed for its capacity to diversify financing sources and improve the efficiency and resilience of the financial system, in line with CMU objectives in particular. The role of the sector is expected to increase further in an environment of low interest rates and with balance sheet constraints impacting the banking sector.

Authorities however emphasize the need to monitor potential systemic risks associated with these activities. Concern has notably been raised regarding the increasing volume of assets managed by open-ended funds that offer daily redemptions, while investing growing amounts of capital in less actively traded securities, which may create potential liquidity mismatch, contagion risks in case of fire sales and also possible 'first mover advantage' issues. Leverage used by some funds may also amplify the impact of negative market movements. In addition the interconnectedness between funds and investors may contribute to further spread risk.

Risks from AM activities are addressed by the existing EU fund frameworks as well as international standards

In the EU, many of the risks associated with AM activities, notably those related to liquidity mismatch and leverage, are already covered by EU legislations (UCITS, AIFMD, MMFR, SFTR), on which possible future policy steps should build. The strengthening of the powers of ESMA proposed in the context of the ESA review should help to improve the consistency of the implementation of these requirements.

The UCITS and AIFM directives both contain liquidity management requirements. AIFs are required to have redemption policies that are consistent with the liquidity profile of their investment strategy and to conduct regular stress tests under both normal and exceptional liquidity conditions. UCITS are also subject to detailed eligibility rules that govern the types of assets in which they are allowed to invest and must conduct stress tests where appropriate. Moreover liquidity management tools (e.g. gates, side-pockets, suspension of redemptions) are available domestically in many EU jurisdictions, but they are not standardized at the EU level.

The UCITS and AIFM directives also provide a legal basis for limiting the build-up of leverage in investment funds. The UCITS directive specifies an investment limit on the exposures of UCITS to derivative instruments and a 10 % temporary borrowing cap. In addition the AIFMD allows national competent authorities (NCAs) to impose leverage limits or other restrictions on the management of AIFs. AIFMD also provides a role for ESMA in determining that the leverage employed by an alternative investment fund manager, or by a group of them, poses a substantial risk to the stability and integrity of the financial system and ESMA may issue advice to NCAs specifying the remedial measures to be taken, including leverage limits.

At the international level, new guidelines have also been introduced to address financial stability risks from market-based finance activities, including AM. The FSB and IOSCO led consultations in 2015 on methodologies for identifying Non-Bank Non-Insurance (NBNI) G-SIFIs including potentially some AM entities, but decided to refocus primarily on the vulnerabilities associated with their activities. The approach regarding NBNI G-SIFI risk is however due to be finalised by 2019.

The FSB published in January 2017 policy recommendations covering four main types of vulnerabilities that are being further elaborated by IOSCO: (i) Liquidity mismatch between fund investments and redemption terms; (ii) Leverage; (iii) Operational risk; (iv) Securities lending activities. The FSB moreover made recommendations to enhance the system-wide oversight of financial stability risks associated with market-based finance activities going forward.

Following these proposals, IOSCO published in February 2018 a set of recommendations for the liquidity risk management of Collective Investment Schemes (CIS) including investment funds, aiming to operationalize the recommendations made by the FSB in this area. Although risk factors that may impact market liquidity and the behaviour of investors in stressed market conditions have not translated at this stage into an evident deterioration of market liquidity, there is evidence according to IOSCO of a constantly changing market environment for which asset managers must be prepared. IOSCO therefore recommends that responsible entities should include liquidity risk management processes and tools in the design of their CISs and then monitor and evaluate the underlying portfolios of their CIS on a regular basis in order to determine whether or not and also how to possibly activate additional liquidity tools. In addition IOSCO recommends that CIS should put in place contingency plans and periodically test them.

Additional measures are however needed according to the ESRB to address from a macroprudential perspective, possible systemic risks stemming from AM activities

Although the current fund regulatory framework provides for effective risk management by investment funds at the individual or microprudential level, its efficacy from a macroprudential or system-wide perspective is largely untested, according to the ESRB. This may hinder the ability of existing fund regulations to prevent the build-up of sector-wide risks.

The ESRB proposed in February 2018 five recommendations addressed to ESMA and the EU Commission aimed at enhancing the EU macroprudential framework applying to the AM sector: (A) Mandating the availability of a diverse set of liquidity management tools in all Member States (such as redemption fees, redemption gates or the ability to temporarily suspend redemptions) in order to increase the capacity of fund managers to deal with redemption pressure when market liquidity becomes stressed; (B) Requiring open-ended AIFs that hold a large proportion of their investments in less liquid assets to demonstrate to NCAs their capacity during and/or after approval to maintain their investment strategy under stressed market conditions; (C) Developing guidance on the practices to be followed by managers for the stress testing of liquidity risk for individual UCITS and AIFs in order to reduce their variability; (D) Establishing a unified UCITS reporting framework across the EU regarding liquidity risk and leverage from a financial stability perspective; (E) Clarifying and harmonizing the use of the macroprudential tool provided under Article 25(3) of AIFMD (i.e. whereby the AIFM shall demonstrate that the leverage limits set by it for each AIF it manages are reasonable and that it complies with those limits at all times) by developing a common approach regarding the assessment of leverage risks and the design, calibration and implementation of leverage limits.

Further detail of these proposals and of the questions they raise can be found in the "Regulatory Update" document .

DAY 1 I 25 APRIL AFTERNOON

16:00 to 16:45 | Sofia Room

Are public and private debts sustainable in the EU?

High levels of private indebtedness – particularly among households and in the financial sector – were a key driver of the financial crisis and one reason why the recovery of the real economy has been so slow. As for public debt, the euro area sovereign debt crisis has highlighted the importance of reducing public debt levels and building up sufficient buffers during normal and good times.

The objectives of this session are to discuss the issues related to private or sovereign debt sustainability in EU countries, the potential impact of changes in interest rates and the possible consequences on their economic policies.

SPEAKERS

Chair

Luiz Awazu Pereira da Silva
Deputy General Manager, BIS

Public Authority

Marco Buti
Director General, DG ECFIN, European Commission

Isabell Koske
Deputy Director, OECD

Rolf Strauch
Chief Economist, Member of the Management Board, ESM

Industry Representatives

Alexander Batchvarov
PhD, CFA, International Structured Finance Strategist, Bank of America Merrill Lynch

Colin Ellis
Chief Credit Officer EMEA, Moody's Investors Service

POINTS OF DISCUSSION

What are the vulnerabilities created by the high level of public or private debts? (e.g. the vulnerability of borrowers to funding shocks, risks shifted from bank intermediaries to non-bank financial intermediaries, asset bubbles, the misallocation of capital, implications for growth)? On the basis of what level of debt do these risks materialize?

Which eurozone countries are most vulnerable to economic shocks on account of their public debt levels? Has their excessive debt made it possible to increase potential growth or reduce unemployment in these countries?

Are there any Eurozone countries where the solvency of private borrowers could be negatively affected by an increase in interest rates over the medium and long term and constitute a systemic risk?

- From what level, and through which mechanisms, can private sector debt compromise an economy's macroeconomic stability and financial stability?
- What are the expected consequences for these countries with the implementation of macroprudential and economic policies?

Public debt vulnerabilities remain high in Europe despite a favourable macroeconomic outlook

At the end of the third quarter of 2017, the government debt to GDP ratio in the euro area (EA19) stood at 88.1%, compared with 89.0% at the end of the second quarter of 2017. In the EU28, the ratio also decreased from 83.3% to 82.5%.

Public debt has overall further reduced in the EU in 2017, supported by the continuing economic recovery, very favourable financial conditions and a broadly stable fiscal outlook (a structural primary balance stable compared to 2016, at 0.8% of GDP).

However, in several countries, public debt levels have not decreased, or have done so at a slow pace, and remain close to their historical peaks. Close to 90% of GDP at the euro area aggregate level in 2017, public debt ratios linger around 100% of GDP in Belgium, Spain, France and Cyprus, and around 130% of GDP in Italy and Portugal. Several countries remain therefore exposed to unfavourable shocks.

According to the Debt Sustainability Monitor (DSM 2017) published by the EU Commission, EU and EA overall debt ratios are projected to remain in 10 years' time above their pre-crisis levels, and well above the 60% of GDP Treaty reference threshold. These remaining important debt-vulnerabilities impede the mobility of cross border capital flows within the EU and expose highly indebted Member States to unfavourable shocks, in particular to hikes in interest rates. For instance, an increase of market interest rates of 100 basis points, compared to the baseline scenario, would raise public debt ratios by around 8 pps. of GDP or more in high-debt countries. Stabilising public debt in a higher interest rate environment would thus require larger fiscal efforts.

This analysis of the EU Commission also states that ten countries are deemed at high fiscal sustainability risk in the medium-term, as a result of inherited high post-crisis debt burdens, weak projected fiscal positions in some cases, and / or sensitivity to unfavourable shocks. This concerns Belgium, Spain, France, Croatia, Italy, Hungary, Portugal, Romania, Finland and the United-Kingdom. In five additional countries, namely Cyprus, Lithuania, Austria, Poland and Slovenia, medium-term fiscal sustainability risks are deemed medium.

Higher long term interest rates and a repricing of sovereign risk may reignite government debt sustainability concerns in the absence of further reforms and consolidation efforts

First, a rise in long-term interest rates may reignite pressures on more vulnerable sovereigns, thereby triggering a sovereign risk repricing. Highly indebted euro area sovereigns are more vulnerable to rising financing costs than countries with lower debt levels. Second, while bail-in and bank resolution rules have weakened the sovereign-bank nexus since the height of the euro area sovereign debt crisis, residual risks remain, not least as individual banks in some jurisdictions remain vulnerable. These short-term challenges continue to be accentuated in the medium-to-long run by vulnerabilities related to lower potential GDP growth and ageing-related costs.

Current better economic conditions should be used to re-build fiscal buffers in time to absorb new shocks when they come, not least a foreseeable rise in interest rates. At the same time, the economic outlook is still surrounded by uncertainties. Therefore, appropriate strategies need to be designed, aimed at strengthening fiscal sustainability, while not hampering the economic recovery. This requires in particular a differentiation of fiscal policy across Member States.

Since reaching its peak in 2009, private sector debt as percentage of GDP has been on slight downwards trend in the euro area as whole

From 147% of GDP in 2009, private sector debt fell to 139% of GDP in 2016. This relatively modest decline hides significant differences across countries. In some highly indebted countries private sector debt-to-GDP ratios have been falling significantly since their peak. The reduction in the ratio has been very marked in Spain (54 percentage points since the peak in 2009), amounting to half of the increase over the previous ten years; the reduction has also been significant in Estonia, Latvia, Lithuania, Luxembourg, Malta, Portugal and Slovenia. By contrast, other highly indebted countries (with a private sector debt-to-GDP ratio above 200%), namely Ireland, Cyprus and the Netherlands, have not shown any major decline in their ratios. Private sector debt-to-GDP ratios have been growing continuously over the past 18 years in Belgium, France, Slovakia and Finland.

The decomposition between debt held by households (HHs) and by nonfinancial corporations (NFCs) shows that the proportion of the latter is on average larger

There are three exceptions: Germany, where the proportion of debt held by households (HHs) is higher than that held by non financial corporations (NFCs); and Greece and the Netherlands, where the proportion of debt held by each sector is approximately equal. The NFC debt-to-GDP ratio is very high in Ireland, Cyprus and Luxembourg. In these countries the value of NFC-held debt is, however, particularly affected by large cross-border intra-company loans.

There is a growing body of empirical literature which shows that high levels of private sector debt can have significant adverse effects on future economic outcomes

While private indebtedness, at moderate levels, helps to smooth consumption and enhance economic growth, an excessive increase in private sector debt over the medium term can affect capital accumulation and lead to lower economic growth. This occurs because investment is reduced as companies need income to repay their debt and private consumption is also reduced as overleveraged households need to increase savings to cover debt service obligations. Moreover, banks' lending suffers as high private sector indebtedness is often associated with rising non-performing loans, which tend to erode banks' capital buffers.

The deleveraging process across euro area countries has come about as a result of both nominal GDP growth and a reduction in private debt

Empirical evidence shows that a rapid and front-loaded deleveraging process tends to be associated with medium-term output gains. This also seems to be the case in the experience of the euro area, where early and swift deleveraging episodes (e.g. in Estonia, Ireland, Spain, Latvia, Lithuania and Slovenia) have been associated with subsequent higher real GDP growth per capita. In four countries (Greece, Spain, Portugal and Slovenia) the deleveraging process has occurred mainly through a reduction in nominal debt, i.e. via debt repayments or write-offs. In five countries (Italy, Cyprus, Latvia, Lithuania and the Netherlands) it occurred as a result of a combination of a reduction in nominal debt and an increase in nominal GDP. In five countries (Germany, Estonia, Ireland, Malta and Austria) deleveraging was driven exclusively by nominal GDP growth.

DAY 1 I 25 APRIL AFTERNOON

15:45 to 16:45

Sredetz Room

Index investing

The objective of this session is to discuss the opportunities and challenges associated with the development of index investing in the EU and whether more specific rules or monitoring would be needed for this category of products in the EU.

SPEAKERS

Chair

Wolf Klinz
MEP, ECON Committee, European Parliament

Public Authority

Paul P. Andrews
Secretary General, IOSCO

Natasha Cazenave
Managing Director, Policy and International Affairs Directorate, AMF

Martin Moloney
Special Advisor, Regulatory Policy, Central Bank of Ireland

Industry Representatives

Noel Archard
Global Head of SPDR Product, State Street Global Advisers

Joanna Cound
Head of Public Policy, EMEA, BlackRock

Expert

Guillaume Prache
Managing Director, Better Finance

POINTS OF DISCUSSION

How to take advantage of the growth of index funds to further develop EU capital markets? What are the conditions or further actions needed to maximize the contribution of index investing to the achievement of CMU objectives? Can lessons be learnt from the US and other jurisdictions in this regard?

What are the potential challenges and vulnerabilities associated with the growth of index investing and how to address them? Is the increasing variety and complexity of index products a matter for concern? Could the development of index investing create new financial stability risks and are these appropriately addressed by the existing EU frameworks? Is there a risk that a strong growth of index investing may reduce the efficiency of capital allocation?

NEXT EUROFI EVENT

The Eurofi Financial Forum 2018

5, 6 & 7 September

Forum organised in association
with the incoming Austrian EU Council Presidency

Vienna - **Austria**

DAY 1 | 25 APRIL AFTERNOON

16:45 to 18:00 Sofia Room

Supervision of EU and third country CCPs

This roundtable will discuss the proposals made by the EU Commission in the context of the EMIR review for improving the supervision of cross-border EU and third country CCPs, possible clarification needs and issues these proposals may raise and how to address them.

SPEAKERS

Chair

Ugo Bassi
Director, Financial Markets Directorate, DG FISMA, European Commission

Public Authorities

David Bailey
Director, Financial Markets Infrastructure, Bank of England

Denis Beau
First Deputy Governor, Banque de France

Danuta Hübner
MEP, ECON Committee and Chair, AFCO Committee, European Parliament

Steven Maijoor
Chair, ESMA

Eric Pan
Director, Office of International Affairs, U.S. CFTC

Industry Representatives

Finbarr Hutcheson
President, ICE Clear Europe

Daniel Maguire
Chief Executive Officer, LCH Group (LCH SA, LCH Ltd and LCH Llc)

Erik Tim Müller
Chief Executive Officer, Eurex Clearing AG

Jonathan Taylor
Managing Director, Agency Derivative Services, Barclays

POINTS OF DISCUSSION

What are the main issues remaining to be clarified regarding the proposals made for the supervision of EU CCPs and how may they be addressed (e.g. supervisory organisation needed, allocation of roles and responsibilities, decision-making processes…)?

Regarding Tier 2 third-country CCPs, how can stronger cross-border supervision work in practice and how would this differ from the present situation? What are the issues remaining to be clarified or addressed?

In which cases may stronger cross-border supervision proposed for Tier 2 systemic third-country CCPs be insufficient to mitigate potential impacts on EU currencies and financial stability in the EU? Is the alternative of a possible denial of recognition proposed for these CCPs appropriate and on what conditions?

BACKGROUND PREPARED BY EUROFI

Issues raised by the current EU supervisory regime of cross-border CCPs and objectives of the EMIR review proposal

On 13 June 2017, the European Commission (EC) adopted a proposal in the context of the EMIR review for strengthening the supervision of EU and third-country (TC) CCPs operating in the EU, whose importance in the financial system is growing following the implementation of the G20 commitments. This proposal aims to further ensure the safety of these CCPs, by enhancing their supervision on a cross-border basis and also to address the implications for the EU financial stability of TC CCPs handling significant volumes of cleared products denominated in EU currencies. This latter issue will be exacerbated with the departure from the EU of the UK, where a substantial proportion of transactions denominated in Euro and other Member State currencies are currently cleared. The EMIR review proposal is currently being examined by the EU Council and EU Parliament.

EMIR already provides measures for ensuring the resilience of cross-border CCPs. Under EMIR, EU CCPs are supervised by colleges comprising the different National Competent Authorities (NCAs) concerned, ESMA and relevant members of the European System of Central Banks, in order to foster further supervisory convergence. These requirements are due to be completed with an EU recovery and resolution (R&R) framework for CCPs and standards have also been established at the global level to ensure the resilience of CCPs. Different assessments have however shown potential shortcomings in the supervision of EU and third-country cross-border CCPs, despite these measures.

First, while supervisory colleges enable better information sharing among supervisors, the main decisions for cross-border EU CCPs are still taken by the home supervisor of the CCP. This needs to be reconsidered according to the EC for CCPs which have significant cross-border activity and are highly interconnected and can therefore impact all or part of the EU. Moreover, different domestic supervisory approaches persist within the EU, creating potential supervisory arbitrage risks and there is a variable degree of cooperation within colleges. In addition central banks of issue (CBIs) are often at present not sufficiently involved in decision-making and risk assessment processes concerning CCPs, for them to appropriately address the issues that may have implications for EU monetary policy.

Secondly, concerning TC CCPs, the current equivalence regime of EMIR leaves only a formal recognition power to the EU authorities, who consider that they do not have the ability to monitor how these CCPs develop after recognition. There is also the same insufficient involvement of EU CBIs in supervisory decisions regarding TC CCPs as for EU CCPs. As a result the current equivalence regime is very reliant on third-country supervisory authorities which may be problematic for TC CCPs of systemic relevance for the EU financial system. This limited involvement of EU supervisors and CBIs makes it indeed difficult for them to identify and address possible changes in TC CCP rules, practices or supervisory arrangements, which may have in particular financial stability or monetary policy implications for the EU.

Main proposals made by the EU Commission for improving cross-border CCP supervision

Regarding EU cross-border CCPs, the main objectives of the proposal are to develop a more European perspective and enhance the role of CBIs in the supervision of CCPs and also to foster a closer cooperation between supervisors and CBIs. In this perspective, the EMIR review proposes the establishment of a specific "CCP Executive Session" within ESMA in charge of the supervision of cross-border CCPs. While NCAs would continue to exercise their current supervisory responsibilities under EMIR, the prior consent of the ESMA CCP Executive Session and when appropriate of the relevant CBIs (e.g. the ECB in the Eurozone) would be needed for decisions that may affect financial stability or the monetary policy of the Union.

The EMIR review also proposes to reinforce the supervisory framework for systemically important TC CCPs wishing to provide services in the EU. TC CCPs would be classified in two groups by ESMA: non-systemically important ones (Tier 1) which would continue to be able to operate under the existing EMIR equivalence framework, and systemically important ones (Tier 2) which would need to comply with additional requirements. ESMA would be granted new powers to recognize and supervise Tier 1 and Tier 2 CCPs under this new framework with the support of the relevant CBIs. Tier 2 CCPs would moreover have the obligation to provide ESMA with all relevant information and enable on-site inspections and a process is proposed for managing possible infringements. A new system of 'comparable compliance' would be introduced for allowing Tier 2 TC CCPs to request the possibility to continue relying on all or part of their home jurisdiction rules, if these are deemed comparable with EMIR requirements, but these would still be subject to ESMA's oversight.

In addition, a limited number of TC CCPs may be determined by ESMA and the relevant CBIs as 'substantially systemically important' for the EU or one of its Member States (according to criteria yet to be set). In this case the CCP would not be recognised by ESMA and the EC would be empowered to mandate that such a CCP should establish itself and be authorized in one of the EU Member States. The result would be the potential denial of recognition of such a CCP.

An assessment of the main questions and issues raised by these proposals can be found in the "Regulatory Update" document.

DAY 1 I 25 APRIL AFTERNOON

16:45 to 18:00 | **Sredetz Room**

Insurance comprehensive systemic risk framework

Since 2013 the IAIS has focused on developing an assessment methodology and related policy measures intended to address the issues posed by the so called global systemically important insurers (G-SIIs).

In 2016, the IAIS revised the G-SII Assessment Methodology as part of its three-year review process. On this occasion, the need to better assess the different ways in which the activities of insurers could be impacted by the broader economy and also in order to assess the potential systemic impact that may stem from the collective actions or distress of insurers on being jointly exposed to certain situations, were acknowledged. This leads regulators in particular to better understand certain cross-sectoral aspects in systemic risk assessment.

The related project undertaken by the IAIS is scheduled to finish in 2019 with a revised systemic risk framework becoming effective in 2020. After a public consultation closed on February the 15th, 2018, the IAIS should consult regarding its final proposal for reviewing its assessment methodology for the identification of Global Systemically Important Insurers (G-SIIs) and on policy measures to address potential systemically risky activities in the insurance sector, by the end of 2018.

The objectives of this session are to clarify the specificities of the insurance sector regarding systemic risk in the whole financial sector context, and to outline the possible features of the forthcoming systemic risk framework and related likely implementation challenges.

SPEAKERS

Chair

Burkhard Balz
MEP & EPP Coordinator, ECON Committee, European Parliament

Public Authorities

Jonathan Dixon
Secretary General, IAIS

Frank Grund
Chief Executive Director, Insurance and Pensions Funds Supervision, BaFin

Julie Mix McPeak
Commissioner, NAIC

Fausto Parente
Executive Director, EIOPA

Industry Representatives

Nina Arquint
Head of Group Qualitative Risk Management, Swiss Re Management Ltd

Joseph L. Engelhard
Senior Vice President, Head of Global Regulatory Policy Group, Global Government Relations, MetLife

Patricia Plas
Senior Vice-President for Public Affairs & Outreach, AXA Group

POINTS OF DISCUSSION

What are the main sources of systemic risk in the insurance area and the subsequent regulatory challenges? What is the relative importance of the systemic threat stemming from the insurance sector compared to other existing systemic threats? What is the expected contribution of insurance companies to financial stability?

What should be the policy priorities?

What are the possible features of the forthcoming systemic risk framework (activity-based approach (ABA), the entity-based approach (EBA), mitigation tools, ...), and the respective roles for the ICS, ComFrame and regional solvency frameworks?

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Alexander Nevsky Cathedral, Sofia

DAY 1 I 25 APRIL AFTERNOON

18:00 to 19:00 | Sofia Room

Review of the operation of the ESAs

The three European supervisory authorities (ESMA, EBA, EIOPA) aim to sustainably strengthen the stability and efficiency of the European financial system in response to the financial crisis which exposed significant failures in financial supervision. Their responsibilities include defining common practices and standards for the regulation and supervision of banking, market and insurance activities, and ensuring the consistent application of these measures within the single market. They launched their activities on January 1, 2011. Since then, 8 years have elapsed and it is timely to assess the efficiency of these entities and their future in the context of the implementation of the Banking Union, the Capital Market Union and the Brexit.

The objective of this session is to discuss the remaining issues regarding the legislative proposal of the EU Commission on the ESAs review. Speakers will be invited to express their views in particular on the priorities to support a common implementation of the single rulebooks and the areas where direct supervisory powers should be given to the ESAs and in particular to ESMA.

SPEAKERS

Chair

Pervenche Berès
MEP, ECON Committee, European Parliament

Discussants

Burkhard Balz
MEP & EPP Coordinator, ECON Committee, European Parliament

Sébastien Raspiller
Deputy Assistant Secretary, Ministry of Economy and Finance, France

Jean-Paul Servais
Chairman, FSMA, Belgium

Felicia Stanescu
Head of Financial Services Policy and International Affairs Unit, DG FISMA, European Commission

Anneli Tuominen
Director General, FSA, Finland & Vice Chair, ESMA

POINTS OF DISCUSSION

What should be the priorities to improve the consistent implementation of the single rulebooks and equivalence arrangements with third countries?

Which supervisory activities of the ESAs and particularly ESMA should be further centralised?

Do the proposals of the ESAs review need to be further modulated across the 3 ESAs? For what reasons?

BACKGROUND PREPARED BY EUROFI

In response to the financial crisis of 2007/8 and building on the recommendations of the High Level Group on financial supervision in the EU chaired by Jacques de Larosière, the Commission put forward legislative proposals to strengthen EU level financial supervision in October 2009. The three ESAs – the European Banking Authority ("EBA"), the European Insurance and Occupational Pensions Authority ("EIOPA") and the European Securities and Markets Authority ("ESMA") – became operational in January 2011.

The responsibilities of the ESAs include defining common practices and standards for the regulation and supervision of banking, market and insurance activities, and ensuring the consistent application of these measures within the single market.

In a very short period of time the ESAs have established themselves are respected by market participants, Member States, the EU institutions and globally for the professional way in which they have undertaken their duties. In this way the ESAs have contributed to a smother functioning Single Market for financial services.

The objective has however only partially been achieved since the implementation of EU laws is not always consistent across the Union. There remains significant potential to enhance regulatory and supervisory convergence in the Single Market. Integrated financial markets may require more integrated supervisory arrangements to function effectively, while more centralised supervisory arrangements can, in turn, foster market integration. The ESAs can play a key role in this symbiotic relationship between market integration and supervisory convergence and can assume more direct responsibility for supervision in targeted areas.

The need to strengthen the EU supervisory framework was emphasized notably in the Five Presidents' Report on completing the EMU (Economic and Monetary Union) published in June 2015 and in a reflection paper of the EC on the deepening of the EMU which called for a completion of the CMU and Banking Union.

The decision of the UK to leave the EU is a further reason for strengthening EU supervisory arrangements, particularly those regarding ESMA, since Brexit reinforces the importance of developing financial markets within the EU in order to continue to support the EU economy and of appropriately managing interactions with third countries. Moreover it is important to preserve the ability in the future for the ESAs to be a platform of European cooperation with non-EU financial centres such as the City to the mutual benefit of both parties.

Launched by the EU Commission last year, the ESAs review provides a very timely opportunity to consider the necessary targeted reinforcement of EU supervisory arrangements. On 21 March 2017, the European Commission launched a public consultation on the operation of the ESAs. On 20 September 2017, The EU Commission presented a proposal to review the operations of the ESAs. Its objective is to further enhance regulatory and supervisory convergence in the internal market in order to support the implementation of the Capital Markets Union (CMU) and the Banking Union in particular.

The ESA review proposal includes a broad range of measures concerning the governance of the ESAs, their direct supervisory responsibilities and their interactions with National Competent Authorities (NCAs) in order to ensure a more consistent application of EU law, the enhancement of the powers of the ESAs regarding third countries to support appropriately equivalence decisions, as well as measures to ensure that ESAs benefit from sufficient funding:

Governance: the EU Commission proposes the creation of an independent Executive Board (EB) consisting of the Chairperson and a number of full-time members in charge of preparing decisions to be taken by the Board of Supervisors (BoS), preparing the ESAs' work programme and budget and making decisions in a number of areas including dispute settlements, breach of Union law and independent reviews. The EB would moreover be in charge of monitoring delegation, outsourcing and risk transfer arrangements to non-EU country entities and of decisions in relation to requests for information.

General supervisory powers: the powers of the ESAs would be enhanced in a number of areas: breach of Union law, settlement of cross-border disagreements (possibility for the ESAs to trigger a settlement on their own initiative), supervisory convergence and coordination (replacement of peer reviews by independent reviews under the responsibility of the EB, supervision by the ESAs of outsourcing…), a coordination role for ESMA in relation to market abuse, investigations including the maintenance of a data storage facility to collect and disseminate appropriate information, publication of the results of individual stress tests, preparation of equivalence decisions regarding third-countries and monitoring their enforcement on an on-going basis, direct collection of information from market participants or financial institutions.

Direct supervisory powers in targeted areas: supervisory convergence on insurance internal models by EIOPA, authorisation, registration and supervision by ESMA of three types of EU funds (ELTIF, EuVECA, EuSEF) and their managers (while the on-going supervision would be retained by the NCA), authorisation and supervision by ESMA of data reporting service providers, explicit product intervention powers (restriction or prohibition of the marketing, sale or distribution) granted to ESMA regarding UCITS and AIF funds, direct supervision by ESMA of the administrators of critical benchmarks, transfer to ESMA of the supervision of certain categories of prospectuses (prospectuses for certain wholesale non-equity securities and asset-backed securities such as securitisations; prospectuses by specialist issuers such as property companies, mineral companies, scientific research-based companies, shipping companies) and prospectuses by non-EU country issuers.

Budgetary implications: At present the ESAs are funded by general contributions from the EU General Budget (40%) and contributions from NCAs (60%). Following the ESA review, the ESAs budget would rely on three sources of financing: annual contributions paid by financial institutions indirectly supervised by the ESAs, supervisory fees paid by entities directly supervised by the ESAs (mainly ESMA), a balancing contribution from the EU that would not exceed 40% of the overall revenues of each agency.

DAY 1 | 25 APRIL AFTERNOON

18:00 to 19:00 | Sredetz Room

Developing regional financial markets in South East Europe

The objective of this session is to discuss the present status and development trends of financial markets in the South East Europe (SEE) region, the role that the financial sector may play in the connectivity among SEE countries and with the EU and in attracting investment in the region and the main opportunities and challenges for further developing and integrating financial markets in SEE countries.

SPEAKERS

Chair

Marinela Petrova
Deputy Minister of Finance and Member of the Economic and Financial Committee, Republic of Bulgaria

Public Authorities

Ivana Ravlić Ivanović
Head of the Financial System Sector, Ministry of Finance, Croatia

Dragan Tevdovski
Minister of Finance, The former Yugoslav Republic of Macedonia

Montenegro (speaker to be determined)

Development Banks

Pierre Heilbronn
Vice President, Policy and Partnerships, EBRD

Debora Revoltella
Director Economics Department, EIB

Industry Representatives

Oliver Roegl
Chairman of the Managing Board, Raiffeisenbank (Bulgaria) EAD

Ivan Takev
Chief Executive Officer, Bulgarian Stock Exchange

POINTS OF DISCUSSION

What are the current status and development trends of South East European (SEE) financial markets? What are the main challenges and opportunities facing the financial sector in the SEE region? What is their present level of integration and harmonisation and their inter-connection with the EU?

What are the priorities for further developing financial markets in South East Europe? What are the objectives in terms of further financial market integration at the regional level and with the EU? How may the role of the financial services sector in the connectivity between SEE countries and with the EU and in attracting investment in the region be enhanced? What role may the private sector, the public authorities and development banks respectively play in this perspective? What incentives or additional policies might be needed?

19:00 to 19:30 | Sofia Room

Brexit next steps and implications

SPEAKERS

Bruce R. Thompson
Vice Chairman, Bank of America

David Wright
President, EUROFI

DAY 1 I 25 APRIL AFTERNOON

19:30 to 20:40 | Sofia Room

Brexit: what way forward less than 1 year from the Article 50 deadline?

This roundtable will discuss the main possible options for EU-UK trade and financial service relationships post-Brexit given the latest state of negotiations, their possible impacts and the challenges that the financial industry is facing in order to adapt to the Brexit timeframe and the changes required.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Katharine Braddick
Director General, Financial Services, HM Treasury

Levin Holle
Director General, Financial Markets Policy, Federal Ministry of Finance, Germany

Steven Maijoor
Chair, ESMA

Industry Representatives

Joe Cassidy
Partner, KPMG UK

Sylvie Matherat
Chief Regulatory Officer, Member of the Management Board, Deutsche Bank AG

Dermot McDonogh
Chief Operating Officer for EMEA, Goldman Sachs International

Douglas Tucker
Head of Compliance, MUFG Bank, EMEA

Shriti Vadera
Chairman, Santander UK

Expert

Christian Noyer
Honorary Governor, Banque de France

POINTS OF DISCUSSION

What are the main possible options for EU-UK trade and financial service relationships post-Brexit given the latest state of negotiations and the main issues that remain to be clarified? What are the potential implications of these options?

How is the financial industry preparing for Brexit? What are the implications of the transition agreement and of the current timeframe of Brexit negotiations for the financial industry? What are the short term issues that need to be addressed in priority to ensure continuity of client service?

BACKGROUND PREPARED BY EUROFI

Progress made in the Brexit negotiations

Following the conclusion of the first round of Brexit talks in December 2017 with an agreement on the financial conditions of the departure of Britain from the EU, a second phase of negotiations was finalized in March 2018 with an agreement on a transition period between March 2019 and December 2020. Until the end of 2020 the UK will continue to participate in the Customs Union and the Single Market and will be subject to all existing Union regulatory, supervisory, budgetary and judicial instruments and structures. However the UK will be considered as a third country as of 30 March 2019 and thus will no longer be represented in EU institutions. Moreover, this transition deal is not fully guaranteed yet and depends on the successful conclusion of a withdrawal treaty in the next 12 months, a draft of which was published in March, with several significant parts remaining to be negotiated.

The current situation remains challenging for industry players and their customers. The risk of a cliff edge situation is eliminated in the short term by the transition deal but still exists after 2020 if trade negotiations are not successful, since the current transition agreement does not include a sunset clause for its possible extension. Given the uncertainty of the final outcome of trade negotiations and the relatively tight timeframe, the Authorities are encouraging the industry to pursue their contingency planning, but many operational and legal issues remain to be addressed in order to ensure service continuity in all situations, including contract continuity and data transfer conditions.

EU-UK trade negotiation objectives and redlines

The negotiations on the future EU-UK trade and financial service relationships post-Brexit started in March 2018 and both sides have officially presented their initial objectives and positions. The UK and EU have both called for a continuation of a partnership as close as possible following Brexit, but have put forward strict "red lines" on which they do not wish to compromise.

The UK's red lines include putting an end to the free movement of people, to significant budgetary contributions to the EU and to the jurisdiction of the ECJ and also recovering the ability to strike its own trade deals with foreign jurisdictions. Being a rule-taker from the EU is also ruled out.

On the EU side, red lines appear to be similarly restrictive. For the EU, the four freedoms underpinning the single market of goods, capital, services and people are indivisible and cherry-picking (opting for some rules and not others or participating on a sector-by-sector basis) should not be allowed in a Union based on the adherence of all its Member States to a common set of rules (EU acquis). The EU27 leaders noted at the March EU Council, that current UK positions "limit the depth of a future partnership" and earlier in March the EU Authorities mentioned that the only possible model in those conditions would be a free trade agreement (FTA) mainly focused on goods.

Possible scenarios for the future EU-UK trading relationships in financial services

Concerning financial services, the UK is calling for the continuation of close relations in the future between the UK and the EU based on a "bespoke" trade agreement based on regulatory and supervisory cooperation. The UK is advocating a regime allowing reciprocal access to EU and UK markets based on a joint agreement, through a structured UK-EU dialogue, on the regulatory requirements for cross-border trade in financial services, assessed according to their outcomes (i.e. potentially achieved through different regulatory requirements). This partnership would also involve supervisory cooperation to ensure the achievement of consistent outcomes over time and to monitor financial stability, as well as market integrity implications. Finally any divergences in terms of outcomes would need to be bilaterally managed in a predictable and proportionate way and an independent arbitration mechanism would be put in place to resolve potential disputes.

EU negotiators have however so far rejected any bespoke deal on financial services on the grounds that such an approach would in effect result in "cherry picking" existing rights and obligations offered by the single market and that an ex ante recognition of equivalence goes beyond the usual scope of FTAs. In the March 2018 EU guidelines for negotiation, proposals regarding trade in services are limited to allowing market access under host state rules, including regarding the right of establishment for providers, "to an extent consistent with the fact that the EU and UK will no longer share a common regulatory, supervisory, enforcement and judiciary framework".

Alternatives in the absence of an EU-UK agreement on financial services

If no agreement is found on financial services, EU-UK relations would have to rely on the existing third-country equivalence provisions of EU financial legislations, when these exist. Current equivalence arrangements have however been repeatedly considered as insufficient for managing over the long term the type of relations that exist at present between the EU and the UK in the financial services sector. They indeed differ across EU regulations and do not cover all financial activities. They are also relatively uncertain since the EU can decide unilaterally to discontinue such arrangements at any time with a 30 day notice. In addition they are lengthy to put in place and cannot be defined ex ante since they require an in-depth equivalence assessment to be made and updated on a case-by-case basis.

In areas where third-country equivalence provisions are not available in EU legislation, there would be no real alternative for UK-based companies wanting to provide services in the EU post-Brexit than establishment in the EU and full compliance with EU rules, since the international General Agreement on Trade in Services (GATS) framework is very limited regarding services.

A general improvement of EU equivalence arrangements could nevertheless be envisaged as a solution, given that most UK financial regulations should be equivalent to EU ones at the moment of Brexit, aiming for instance to make these arrangements more legally certain and predictable with more timely processes and possibly improving their coverage and consistency notably regarding wholesale financial services.

08:15 to 09:30 | Sofia Room

How are fintech and digitalisation transforming business models and value chains?

This session is dedicated to taking stock of innovation trends in the EU financial area and their consequences in terms of business models, value chains and the integrations of EU markets for financial services.

Since other sessions of the Sofia Eurofi event are dedicated to provide insights on the EU fintech Action Plan, the impacts of the PSD2 and GDPR, as well as cybersecurity, this session will mainly focus on the main business trends observed in the EU and on drawing the possible general consequences regarding EU regulatory and supervisory approaches in a fast moving domain.

SPEAKERS

Chair

Jesper Berg
Director General, Danish FSA

Public Authorities

Per Callesen
Governor, Danmarks Nationalbank

Andreas Dombret
Member of the Executive Board, Deutsche Bundesbank

Eva Maydell
MEP, IMCO Committee, European Parliament

Vilius Šapoka
Minister of Finance, Republic of Lithuania

Industry Representatives

Kaj-Martin Georgsen
Head of Corporate Responsibility & Public Affairs, DNB

Alan Marquard
Chief Strategy and Development Officer, CLS

Adriana Pierelli
Managing Director, Regional Executive Southern Europe, BNY Mellon

Lauri Rosendahl
President, Nasdaq Nordic

POINTS OF DISCUSSION

What magnitude of change can be expected from technology and related innovations in the EU in the short or medium term in different financial areas and the impacts on business models and value chains?

Can technology play a significant role in the development and the further integration of EU markets for financial services? What needs to be conducted at the EU rather than the domestic one?

What should be the overall objectives and priorities of the EU policy approach to technological innovation in the financial area (e.g. beyond CMU fintech framework, PSD2, GDPR, …)? What additional global or EU policy initiatives may be needed?

FOLLOWING EUROFI EVENT

3, 4 & 5 April 2019

Bucharest - **Romania**

Palace of Parliament, Bucharest

09:30 to 10:30 | Sofia Room

What can be expected from an EU fintech policy framework?

This session will discuss the improvements expected from the recently published Fintech Action Plan of the EU Commission and the proposal to introduce an optional EU crowdfunding regime and how these initiatives may support the uptake of fintech in the EU and the Capital Markets Union.

SPEAKERS

Chair

Felicia Stanescu
Head of Financial Services Policy and International Affairs Unit, DG FISMA, European Commission

Public Authorities

Kalin Anev Janse
Secretary General, Member of the Management Board, ESM

Märten Ross
Deputy Secretary General for Financial Policy and External Relations, Ministry of Finance, Estonia

Mirèl ter Braak
Senior Policy Advisor Innovation & Fintech, AFM

Harald Waiglein
Director General for Economic Policy, Financial Markets and Customs, Federal Ministry of Finance, Austria

Industry Representatives

Tracey McDermott
Global Head - Corporate Affairs, Brand & Marketing, Standard Chartered Bank

Antti-Jussi Suominen
Chief Executive Officer, Holvi

Koos Timmermans
Chief Financial Officer Executive Board, ING Groep N.V. & Vice Chairman Management Board Banking, ING Bank

POINTS OF DISCUSSION

Can the Fintech Action Plan of the Commission foster a significant development of fintech in the EU and what are its factors of success and possible limitations?

Can fintech play a decisive role in the CMU and what impact can be expected from the EU crowdfunding regulation proposal?

BACKGROUND PREPARED BY EUROFI

Fintech has the potential to foster radical change in the financial sector

Technology has been a key driver of progress in the financial sector for decades but fintech (i.e. technology-enabled innovation in financial services) based on new technologies such as cloud computing, big data analytics, artificial intelligence (AI), Distributed Ledger Technology (DLT) including blockchain, offers new opportunities that could foster radical change in the sector. Many of the practical applications of fintech being implemented or tested at present in the market are improvements of existing services / processes, but fintech can also help to build new business models and facilitates the entry of new players into the market.

On the efficiency side, DLT for example has the potential to significantly reduce costs and delays notably in areas where automation and standardization are limited. Current applications however tend to focus on relatively niche processes and markets or on adding resiliency to existing processes or databases. Other fintech solutions, often based on internet applications, aim to support effective interactions among key stakeholders in the financing value chain. These include loan and investment-based crowdfunding and also robo-advice and data aggregation platforms for instance. Finally, RegTech solutions based on fintech may also facilitate the supervision of capital markets.

These different services and solutions have mostly been developed by fintech start-ups but incumbent players such as banks and infrastructures are increasingly playing a role either as partners of or investors in fintechs.

The Fintech action plan proposed by the EU Commission aims to further support the development of fintech solutions in the EU

Harnessing the potential of fintech to transform financial business models is one of the key priorities of the Capital Markets Union (CMU) action plan reviewed at the end of 2016 and is also an integral part of the European Commission's (EC) objective to achieve a digital single market.

Some tools and measures have already been implemented at Member State level to encourage the use of fintech, such as innovation hubs, incubators or regulatory sandboxes, and specific rules have also been developed for crowdfunding platforms in some jurisdictions. Initiatives have also been launched at the EU level such as the European observatory and forum on blockchain (which aims to enable cross-border cooperation on practical use cases as well as new ideas) and specific provisions to improve cyber security in the financial sector. Following a public consultation led in 2017, the EC considered that the case for a broad legislative or regulatory action at EU level regarding fintech was limited at this stage, but that a number of targeted EU initiatives were needed, building on existing experiences. Key principles that a fintech policy approach should adopt were also reinforced by the feedback of the consultation i.e. the need for a non-prescriptive approach based on technology neutrality and same activity, same risk, same rule principles.

The EC's Fintech action plan published in March 2018 sets out a range of measures aiming to encourage and simplify the emergence of new fintech solutions and to enable innovative business models to scale up, while increasing cyber-resilience and preserving the integrity of the financial system. These measures include:

- The establishment by the EC of an expert group to assess whether current EU financial services rules need to be adapted to the challenges posed by new technologies and whether some of them need to be made more technology-neutral, proportional or flexible. The EC moreover invites the European Supervisory Agencies (ESAs) to explore the need for guidelines on outsourcing to cloud service providers.
- The creation of an EU FinTech lab hosted by the EC, which will aim to foster a better understanding of technologies by providing training to regulators and supervisors in a non-commercial way and sharing knowledge on new technologies.
- The preparation of a Report with best practices on regulatory sandboxes and fintech hubs based on guidance from the ESAs in order to encourage coordination among Member States.
- A project to promote the digitization of information published by listed companies in Europe (the European Financial Transparency Gateway), using inter alia innovative technologies such as blockchain to interconnect national databases in order to facilitate cross-border investment decisions.
- A continuation of the efforts already underway to monitor crypto-currency and crypto-asset developments and the emergence of initial coin offerings (ICOs), to strengthen cybersecurity guidelines (notably regarding information sharing and cyber resilience testing) and also a continuation of the actions to enhance fintech (notably blockchain) standardization and inter-operability in connection with the relevant ISO committee.

The EC has moreover proposed in the context of the ESAs review that the latter authorities should systematically consider fintech in all their supervisory activities. The GDPR (General Data Protection Regulation) which will become applicable in May 2018 also provides guidelines that will be essential for a proper use of innovative data-driven financial services.

In addition the Commission has proposed a new EU regulation on crowdfunding

At present investment- and lending-based crowdfunding is under-developed in the EU compared to other major economies. One of the main reasons is that crowdfunding is mainly conducted on the basis of national legislation which currently limits the expansion of these platforms across the EU.

The EC's proposal is to introduce an optional EU crowdfunding regime, which will enable platforms that comply with this common set of rules to provide their services across the EU with a comprehensive passporting regime. In addition, platforms would be authorized and supervised in a common way by ESMA. Several mechanisms are also proposed to protect crowdfunding investors (e.g. improved disclosure of risks, requirement for payments to take place via entities authorized under the PSD2) and to provide legal certainty as regards the applicable investor protection rules.

09:30 to 10:30 | Sredetz Room

Digital payments: opportunities & challenges for the EU

EU institutions, incumbents and Fintech are all active to timely address the needs stemming from digitalisation, address related threats and cease potential opportunities.

In this context, this session is intended to outline on-going disruptions - be they regulatory, related to infrastructures or to business models - in the area of retail payments.

On this occasion the participants in the panel will also stress the possible improvements that the regulatory framework and process deserve in order to make all the players involved (supervisors, standard setters, Fintech, Banks, payment infrastructures, etc.) as agile as required by permanent digital innovation.

SPEAKERS

Chair

Madis Müller
Deputy Governor, National Bank of Estonia

Public Authorities

Marc Bayle de Jessé
Director General, Market Infrastructure and Payments, ECB

Adam Farkas
Executive Director, EBA

Ashley Fox
MEP, ITRE Committee, European Parliament

Jérôme Reboul
Deputy Assistant Secretary for Banking Affairs, DG Tresor, Ministry of Economy and Finance, France

Industry Representatives

Timothy P. Keane
Vice President & Chief Operating Officer, WUPSIL

Brett Loper
Senior Vice President, Global Government Affairs, American Express

Miroslav Vichev
Chief Executive Officer, Borica

Narinda You
Secretary General & Member of EPC Board, Crédit Agricole S.A.

POINTS OF DISCUSSION

What are the main on-going strategic disruptions in the payment area (e.g. business models and value chains, cooperation between incumbents and fintechs ...)? What are the expected impacts on the single market?

What are the prospects of the ECB instant payment project? Is there a need for additional common infrastructures or standards in the EU to be up to digitalisation challenges?

What is the specific added-value of the various EU regulatory pieces or initiatives with regard to innovation and competition in the EU? What are the remaining EU regulatory and supervisory priorities?

10:45 to 11:45 | Sofia Room

Cybersecurity: on-going improvements and remaining challenges

The objective of this session is to discuss how cyber-risks are developing and changing in the EU financial sector, the main present vulnerabilities, what has been achieved with existing EU and global level cybersecurity approaches and policies and what further improvements may be needed.

SPEAKERS

Chair

Marc Bayle de Jessé
Director General, Market Infrastructure and Payments, ECB

Public Authorities

Paul P. Andrews
Secretary General, IOSCO

Morten Linnemann Bech
Head of Secretariat, Committee on Payments and Market Infrastructures, BIS

Petra Hielkema
Division Director Payments and Market Infrastructures, De Nederlandsche Bank

Paolo Marullo Reedtz
Head of the Directorate General for Markets and Payment Systems, Banca d'Italia

Industry Representatives

Natasha de Terán
Head of Corporate Affairs, SWIFT

Gil Delille
Group Chief Information Security Officer, Crédit Agricole S.A.

POINTS OF DISCUSSION

How are cyber-risks developing in the financial sector? Where are the highest vulnerabilities at present in the EU financial sector and what future evolutions can be anticipated? Are there still many areas where cybersecurity practices need to be significantly improved?

Are cybersecurity issues approached in the appropriate way in the EU and globally by the public authorities and the industry? What further improvements may be needed? How to keep up with constant innovation in the financial sector and among cyber-criminals and what are the consequences in terms of cyber-security?

10:45 to 11:45 | Sredetz Room

GDPR: impacts, opportunities and challenges

This session is intended to take stock of the situation in the digital (financial) area in the context of the forthcoming roll out of the General Data Protection Regulation, which comes into force in May 2018.

At a moment when scandals have been damaging citizens' trust in "big techs", the session will in particular try to find out whether the introduction of such an EU regulation is a game changer for both the role and business model of financial incumbents and new entrants, and whether it has the ability to restore the appropriate level of trust to preserve innovation in the financial sector.

SPEAKERS

Chair

Pēteris Zilgalvis
J.D., Head of Unit, Startups and Innovation, Digital Single Market Directorate, DG CONNECT & Co-Chair of the FinTech Task Force, European Commission

Public Authorities

Lionel Corre
Deputy Director Insurance Division, Ministry of Economy and Finance

Industry Representatives

Murat Abur
Chief Technical Officer, Suade Labs

Jad Ariss
Group Head of Public Affairs & Corporate Responsibility, AXA Group

Laurent Lascols
Global Head of Public Affairs, Société Générale

POINTS OF DISCUSSION

What are the main challenges posed by digitalisation regarding data protection and privacy?

Are appropriate answers provided by the EU digital regulatory framework (e.g. PSD2, GDPR...) and what are the expected impacts of these rules on digital players?

What are the internal managerial and operational challenges faced by financial institutions for complying with the GDPR?

Should further policy initiatives be envisaged regarding supervision, the definition of EU standards, possible common EU infrastructures...?

BACKGROUND PREPARED BY EUROFI

In a context where digitalisation and the development of new technologies such as Artificial Intelligence (AI), machine learning, and Big Data, Regulators are increasingly eager to regulate how organisations store, process and share personal data. Consequently, the General Data Protection Regulation (GDPR) comes into force in May 2018 in the EU. It aims at protecting EU citizens' data, regardless of where the data are processed or stored.

In particular the article 5 of the GDPR requires that personal data shall notably be:

- processed in a transparent manner in relation to individuals
- collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes (...)
- kept in a form which permits the identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed; (...)
- processed in a manner that ensures appropriate security of the personal data, including protection against unauthorised or unlawful processing (...)

The GDPR applies not only to 'controllers' i.e. the entities who determine the purposes and means of processing personal data but also to the entities processing personal data on behalf of a controller.

The risks of not complying are substantial. Reputational risk is important as is illustrated by the pressure faced by Facebook to explain how data collected on 50m users on the basis of a psychological survey app for research purposes, were exploited potentially for political purposes.

Financial risk is not negligible either since the regulation imposes potential fines of up to €20m or 4 per cent of annual global turnover.

However not only GDPR will transform how organisations store and manage personal data, but it is likely to impact certain business models in a context where internet and data are every day more intimately involved in the day to day life of business and citizens. Indeed, it is the collection and monetisation of data, which underpin the digital economy and are among the essential challenges posed by digital players to incumbent financial groups.

After decades during which in a highly innovative domain, practices have mostly been defined by market practitioners, this new EU regulation suggests that public decision makers have perceived the possible conflicts of interest faced by the management of big techs and also a true asymmetry between them and their customers in the perceptions of the stakes related to data. However, this raises one question, which is worth addressing at this point in time, which is whether governments must intervene in order to build trust in the area of personal data which is a promising economic sector, while preserving its capacity to innovate.

The "Cambridge Analytica" scandal also suggests assessing the magnitude of the backlash in public opinions provoked by rows of data abuses, and cyber-attacks. Interesting questions indeed are whether such a backlash produces irreversible effects on consumers and also whether the GDPR which has de facto a global reach, as such suffices or not, to address related concerns and restore the level of trust required for the economy to continue to reap the benefits of constant innovation in the digital economy.

Finally, in such a context, the financial sector the historical role of which is the security of people's assets, might have one opportunity, which is to contribute to deepening the trust in data, by developing insurance and data custody services as trusted third party. Indeed, the GDPR enables companies to access data from both competitors and players outside their industry, notably by offering better prices and services to customers who store their personal data with them. Naturally, beyond the design of data custody products, harnessing the conditions for anchoring the credibility of the financial sector regarding its ability to provide an effective protection for data, in the context of an ever increasing cybersecurity threat, would be essential. To comply with GDPR and even more to be up to the customer challenges, require from competitors notably in the financial area to address related managerial and operational challenges, and implement an effective data governance.

11:45 to 12:15 | Sofia Room

Speeches: Fintech developments and financing of the EU economy

SPEAKERS

Brian D. Quintenz
Commissioner, U.S. CFTC

Vittorio Grilli
Chairman of the Corporate and Investment Bank EMEA, J.P. Morgan

Dietrich Domanski
Secretary General, FSB

David Wright
President, EUROFI

sofia2018.eurofi.net

Ivan Vazov National Theater, Sofia

13:15 to 14:00 | Sofia Room

Further reducing fragmentation in the CMU

The objective of this session is to discuss whether the main areas of fragmentation in EU capital markets are being appropriately addressed by the Capital Markets Union action plan, how far integration should go for the success of the CMU and what more should be done and also to assess the main challenges facing the CMU that may impact its integration objectives.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Ugo Bassi
Director, Financial Markets Directorate, DG FISMA, European Commission

Markus Ferber
MEP, 1st Vice-Chair, ECON Committee, European Parliament

Marinela Petrova
Deputy Minister of Finance and Member of the EFC Committee, Republic of Bulgaria

Industry Representatives

Laura Ahto
Chief Administrative Officer for Global Asset Servicing, BNY Mellon

Mathias Papenfuß
Member of the Executive Board, Clearstream Banking AG

POINTS OF DISCUSSION

Is the CMU delivering more integrated financial markets in the EU? If not why not and what more could be done?

What are the key challenges facing the integration objectives of the CMU and how to address them?
How far should integration go for achieving the CMU and how to maintain an appropriate balance in the EU between market integration and local market development?

BACKGROUND PREPARED BY EUROFI

Main objectives of the Capital Markets Union

The Capital Markets Union (CMU) project was designed at the end of 2014 as an EU-wide project aimed at developing and further integrating capital markets in the EU, in order to connect savings to investment across the Union and foster growth by providing alternative sources of financing for SMEs and infrastructure projects. These objectives have become even more urgent with the decision of the UK and thus of Europe's largest financial centre to leave the EU.

The specific importance of the CMU for improving the resilience of the Eurozone has also been emphasized. Indeed an effective CMU would complement the Banking Union, leading to more "private risk-sharing" across the Euro area and thus to a more effective allocation of risks and capital across the Union and to an increased shock-absorption capacity.

The Action Plan of September 2015 set out a broad range of 33 actions necessary to put in place the building blocks of CMU by 2019. These were completed at the end of 2016, following the mid-term review of the CMU, with an additional set of priorities regarding fintech, sustainable finance and personal pensions.

The strategy of the European Commission for completing the CMU by 2019 is made up of three main components at the heart of which is the further integration of EU capital markets

The first component is allowing all investors to take full advantage of the single market for capital with new EU-wide labels and passports for financial products and services. In this perspective new rules have been put in place to develop EuVECA funds. A label for Pan-European personal pensions (the PEPP) was put forward in June 2017 in order to help households prepare for retirement and make the most of their savings. In March 2018 a new EU regime was proposed for crowdfunding platforms, to help them operate across the single market based on a single authorization and common EU rules were also proposed to boost covered bonds as a source of long-term finance. Work is moreover underway on defining an EU green finance framework in order to support the development of sustainable finance.

The second component is to remove remaining barriers to deeper capital markets and simplify rules for businesses, notably SMEs. Rules have already been adopted in this context namely the Prospectus Regulation, more proportionate requirements for SME IPOs and new rules for safe, transparent and standardized securitization (STS) and work has been conducted on the barriers to further integration of post-trading by the EPTF group set up by the European Commission (EC). New measures to develop the cross-border market for investment funds were also presented in March 2018, as well as rules to facilitate cross-border securities transactions by providing legal certainty on who owns a claim and clarifying which country's law applies when determining who owns a security in a cross-border transaction. Proposals have also been made in 2016 on business insolvency to promote preventive restructuring and give a second chance to viable businesses.

The third component is about achieving a more consistent supervision of EU capital markets and supporting the development of capital market ecosystems throughout the EU. Proposals were made at the end of 2017 to review the operation of the European Supervisory Agencies (ESAs). Moreover technical assistance is provided by the EC to support the development of local capital market ecosystems throughout the EU.

Progress made in the implementation of the CMU action plan and remaining challenges

Progress has been made in the three areas mentioned above. Legislative proposals have been made by the EU Commission (EC) regarding many actions of the CMU Action Plan, and these are in the process of being reviewed by the co-legislators. However several challenges remain to be overcome.

Brexit is a first challenge. A Brexit deal that would not cover appropriately financial services could be a significant hindrance to the deliverability of the CMU in the short term, due to the current dependence of EU capital markets on the City. But many in the EU also see Brexit as an opportunity and an incentive for the EU27 to achieve greater financing autonomy and to accelerate the development and integration of its financial markets, building on the CMU and the Banking Union initiatives.

Building sufficient momentum around the CMU which is broad in its scope, made up of many individual initiatives and with no single action decisive enough to drive significant short term growth of EU capital markets is however challenging. The CMU is currently in a critical phase of its implementation, politically. The objective of the EC is to finalize the adoption of all the CMU-related proposals by the next European elections i.e. 2019, however, at this stage several legislative proposals on CMU are still under review or have just been published. More fundamental questions are also raised by some commentators regarding the toolbox design of the CMU project and whether it may provide a sufficiently ambitious and concrete vision of post-Brexit EU27 capital markets and financial centres.

The interconnection of the CMU with the Banking Union is another issue to be considered. Progress on the CMU, notably regarding its integration objectives, is indeed dependent to a certain extent on a further integration of the EU banking market since banks play a key role as intermediaries, distributors and administrative agents in many capital market activities. However Eurozone banking markets (and even more so EU ones), remain very much fragmented along national lines, despite the common supervision and resolution approaches of the SSM and SRM. The potential impacts of bank (and insurance) prudential rules on the development of EU capital markets are another factor that is being addressed in the context of the CMU but may require further attention.

Finally, finding the right balance between the pan-European and the local dimensions of the development of the CMU is another challenge. Further integrating EU capital markets and improving the consistency of rules should foster their development. However, the expansion of EU capital markets also hinges on the growth of local market ecosystems, notably local SME markets, whose growth could potentially be limited by further integration if, for instance, the most successful businesses only go to the biggest financial centres for their financing and if regulatory requirements are not adapted to smaller businesses and markets in a sufficiently proportionate way.

14:00 to 14:30 | Sofia Room

Priorities for developing sustainable finance

On the basis of the recommendations set out by the High-Level Expert Group on sustainable finance (HLEG) in 2017, the Commission has proposed a roadmap to boost the role of finance in order to improve the transition toward a sustainable economy.

This session is dedicated to clarifying the challenges and priorities faced in particular by the financial sector to further and better investing in favour of a sustainable economy.

SPEAKERS

Chair

Christian Thimann
Chairman of the EU High-Level Expert Group on Sustainable Finance and Senior Executive, AXA Group

Public Authorities

Daniel Calleja Crespo
Director General, DG ENV, European Commission

Paul Tang
MEP, ECON Committee, European Parliament

Industry Representative

Jérôme Brunel
Member of the Executive Committee,
Crédit Agricole S.A.

POINTS OF DISCUSSION

Appropriately financing the sustainability transition: what is at stake? What are the main challenges faced notably by financial intermediaries and investors in this context?

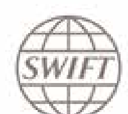
What are the respective roles of public decision makers and market forces to improving the financing of the transition toward an effective sustainable economy?

What are the outstanding features of the EU sustainable finance framework and their specific challenges?

EUROFI MEMBERS

BLACKROCK

J.P.Morgan



14:30 to 15:45 | Sofia Room

EU green finance framework (taxonomy, reporting, fiduciary duties...)

On the basis of the recommendations set out by the High-Level Expert Group on sustainable finance (HLEG) in 2017, the Commission has proposed a roadmap to boost the role of finance in order to improve the transition toward a sustainable economy.

This session is dedicated to clarifying the nature of the challenges faced by investors, financial players and markets as well as project sponsors when it comes to further investing in favour of a sustainable economy and the related added value of the proposed framework.

The session will also discuss the technical and political challenges that EU regulators are facing to deliver the proposed framework in the global context in a timely fashion.

SPEAKERS

Chair

Jonathan Taylor
Vice-President, EIB

Public Authorities

Pervenche Berès
MEP, ECON Committee, European Parliament

Felicia Stanescu
Head of Financial Services Policy and International Affairs Unit, DG FISMA, European Commission

Gerassimos Thomas
Deputy Director-General, DG ENERGY, European Commission & Steering Board Chairman, EFSI

Harald Waiglein
Director General for Economic Policy, Financial Markets and Customs, Federal Ministry of Finance, Austria

Industry Representatives

Philippe Gouin
Head of balance Sheet Management, La Banque Postale

Michael Leinwand
Chief Investment Officer, Zürich Beteiligungs-AG

Stephanie Maier
Director, Responsible Investment, HSBC Global Asset Management

Dominic Rossi
Senior Advisor, Fidelity International

POINTS OF DISCUSSION

Financing the sustainability transition: what is at stake and what are the main challenges faced by investors wanting to invest in a sustainable economy?

What are the main impediments to further developing the sustainable investment pipe line in the EU toward a more sustainable economy?

What are the main features and milestones toward a EU sustainable finance framework, as outlined in the Communication of the EU Commission, and their specific challenges? What are the respective roles of public decision makers and market forces and trade-associations? What would be the appropriate level of consistency among existing frameworks at the global level?

Economic sustainability requires an unprecedented level of investment

The magnitude and diversity of sustainability investments i.e. those related to climate change mitigation and adaptation, as well as air and water pollution, resource depletion, and biodiversity loss, are unprecedented. These investments are not focused on certain economic sectors such as energy infrastructures. Rather these investments are an essential and permanent feature on the whole investment effort globally.

Mainstreaming long-term sustainability is essential

This why all sustainability needs to be mainstreamed and incorporated in all investment planning and related financing decisions, which have to demonstrate that they are "carbon proof" and even "sustainability proof".

The systematic provision of sustainability information will in particular help to address a huge moral hazard, notably existing in the financial sphere, by which investors, entrepreneurs and project sponsors may maintain or increase their contribution to environmental and social threats, since the cost and the consequences of those threats are at present borne by others, or by society as a whole and such risks are likely to materialise over a longer time horizon.

Indeed, this situation stems notably from the fact that those economic players with insufficient information or accountability regarding the long-term or indirect consequences of their actions, have a tendency or even the incentive to behave inappropriately from the perspective of society as a whole.

Progress has already been made

An increasing number of investors are already demanding systematic and structured information regarding the direct and indirect contributions of their investment to the adaptation of the economy to sustainability.

Essential contributions of the private sector have also been the definition of the Green Bond principles and the subsequent constant strengthening of Green Bond markets.

The involvement of the private sector in the definition and voluntary implementation of climate-related financial disclosures (as proposed by the Task Force on Climate-related Financial Disclosures - TFCD) released in June 2017, also demonstrates its strong commitment.

In the context of the impetus created by the Paris agreements, this market led progress has sent an explicit signal to the management of large industrial and financial groups on the strategic importance for their institutions to contribute explicitly to adaptation efforts.

It is however necessary to further refocus capital flows and mitigate disruption risk

However, since current levels of investment are not sufficient to support an environmentally and socially sustainable economy, policy makers have also to contemplate the ways and means to refocus capital flows toward the projects supporting a sustainability transition.

However, EU policy makers need also to make such a transition toward a more sustainable economy as smooth as possible. Indeed, unexpected or destabilising wake-up calls regarding the proximity of an occurrence of sustainability-related risk (e.g. policy makers stranding certain assets, the sudden obsolescence of a given green technology, etc.) might trigger financial disruptions and have systemic consequences.

This requires an appropriate level of transparency, an effective continuity of sustainability policies and finally structured forward guidance from public authorities. This is notably necessary in a context where these risks involve assessment approaches, which are no more based on the assumption that the future can be deduced from the observation of past events. The continuity of sustainability policies requires in particular to factor in policy decision making and public sector risk-mitigation mechanisms, the rapid obsolescence of "sustainability technologies" which results from constant innovation and cost-efficiency improvement.

Communication of the EU Commission - Areas for action

To make progress in these different domains, the EU Commission issued in March 2018 a Communication outlining the features of an action plan for a "Greener and Cleaner Economy" depicting its strategy for a financial system more supportive of climate and sustainable development agenda and also setting up a road map.

In order to address the unprecedented information challenge, to make more sustainable the whole financial value chain and prudential regulations and to foster investment in sustainable projects, the road map of the EU Commission outlines 10 work-streams contributing to three main areas of progress:

I. Re-orientating capital flows towards a more sustainable economy

1. Establishing an EU classification system for sustainable activities (taxonomy)
2. Creating standards and labels for green financial products
3. Fostering investment in sustainable projects
4. Incorporating sustainability when providing financial advice
5. Developing sustainability benchmarks

II. Mainstreaming sustainability in risk management

6. Better integrating sustainability in ratings and market research
7. Clarifying institutional investors' and asset managers' duties
8. Incorporating sustainability in prudential requirements (e.g. a green supporting factor)

III. Fostering transparency and long-termism

9. Strengthening sustainability disclosure and accounting rule-making
10. Fostering sustainable corporate governance and attenuating short-termism in capital markets

Regarding the timetable, the Commission lays down some deadlines:

May 2018, proposals on the duties of institutional investors and asset managers and on the principles and scope of an EU taxonomy for sustainable activities.

- Q2 2018, the amendment of Markets in Financial Instruments Directive (MIFID II) and the Insurance Distribution Directive (IDD) delegated acts, to enhance sustainability in suitability assessment.
- Q1 2019, the publication by an expert group of a report on a taxonomy on climate change activities,
- Q2 2019 Report on a taxonomy on climate change adaptation and other environmental activities as well as a Report on green bond standards.
  The Commission will create EU Ecolabels for financial products and explore possible prudential measures to incorporate climate and environmental risks after the adoption of an EU regulation on taxonomy
- Assessment by the Commission of the fitness of EU legislations on public corporate reporting, and the amendment of non-binding guidelines on non-financial reporting. The adoption of delegated acts on a prospectus for green bond issuances and the publication of a study on sustainability ratings and research.

14:30 to 15:45 | Sredetz Room

Regional and SME market ecosystems in the context of the CMU

The objective of this session is to discuss the importance of diversifying funding sources for EU SMEs, the role that capital markets may play in this regard and the potential obstacles as well as the role that local and SME ecosystems may play and how to develop them in a compatible way with the further integration of EU capital markets in the CMU. The impact of the recently implemented MiFID II requirements will also be discussed.

SPEAKERS

Chair

Benjamin Angel
Director for Treasury and Financial Operations, DG ECFIN, European Commission

Public Authorities

Bas Bakker
Senior Regional Resident Representative for Central, Eastern and Southeastern Europe, IMF

Lionel Corre
Deputy Director Insurance Division, Ministry of Economy and Finance, France

Roger Havenith
Deputy Chief Executive Officer, EIF

Industry Representatives

Christophe Bourdillon
Chief Executive Officer, CDC Entreprises Valeurs Moyennes, Caisse des Dépôts Group

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer, UniCredit Bulbank

Ludwig Nießen
Chief Technology Officer & Chief Operating Officer, Vienna Stock Exchange

POINTS OF DISCUSSION

How important are financing issues for EU SMEs? What are their main uncovered financing needs?

What role can capital markets play in answering the financing needs of EU SMEs? What are the main obstacles to the further development of capital market financing for EU SMEs?

How important are local / regional ecosystems for the development of SME markets and how to (re)develop them and ensure sufficient liquidity, demand, supply? What are the opportunities and concerns associated with MiFID II and CMU measures?

Eurofi would like to thank very warmly

the Bulgarian EU Council Presidency

for their support to the organization of this event

Bulgarian Presidency of the Council
of the European Union

16:00 to 17:00 | Sofia Room

Developing fund cross-border distribution

The objective of this session is to discuss the proposals recently made by the EU Commission for reducing the barriers to cross-border distribution of investment funds within the EU, the expected impact of these proposals and possible remaining issues and how to address them.

SPEAKERS

Chair

Ugo Bassi
Director, Financial Markets Directorate, DG FISMA, European Commission

Public Authorities

Rodrigo Buenaventura
Director General, CNMV

Natasha Cazenave
Managing Director, Policy and International Affairs Directorate, AMF

Jean-Marc Goy
Counsel for International Affairs, CSSF

Verena Ross
Executive Director, ESMA

Industry Representatives

Massimo Greco
Head of European Funds, J.P. Morgan

Stéphane Janin
Head of Global Regulatory Development, AXA Investment Managers

Stéphane Lapiquonne
Managing Director, BlackRock

Adam Lessing
Head of Central & Eastern Europe, Fidelity International

POINTS OF DISCUSSION

Will the proposals of the EU Commission enable tackling the main regulatory and administrative barriers hindering fund cross-border distribution? What impacts are expected on the EU fund sector? What are the conditions of success and possible limitations of these proposals?

What further improvements of fund cross-border distribution can be expected from the proposals of the ESAs review or the implementation of MiFID II and PRIIPs rules? How may technology help to develop the EU cross-border fund market further?

BACKGROUND PREPARED BY EUROFI

The EU asset management sector remains fragmented despite unified EU product and distribution frameworks

The development of the asset management sector is a key driver of the Capital Markets Union (CMU). Funds, which provide portfolio diversification, are indeed an effective way to intermediate capital between securities issuers and investors and cross-border funds may also play an important role in better allocating capital and risk throughout Europe.

The development of the EU cross-border fund market is supported by the UCITS and AIFM directives, which provide a consistent set of rules for the provision of investment funds to retail and professional investors in Europe. These frameworks have been completed with more specific products (ELTIF, EuVECA, EuSEF) targeting long term investment and also with specific rules for MMFs. In addition MiFID II and PRIIPs provide unified rules for the distribution of these products and the provision of information notably to retail investors.

The EU fund sector has experienced a strong growth particularly following the 2008 crisis, since when the assets held by investment funds have doubled in the EU. The EU investment fund sector reached a total of €14,310 billion in assets under management in June 2017, of which approximately 60% is invested in UCITS and 40% in alternative investment funds (AIFs). However, the sector remains fragmented which impacts its competitiveness. The EU fund market counts a high number of funds of a relatively small average size (compared in particular to the US), which increases management costs and lowers potential investor returns. In addition the EU fund market is still predominantly organized along national lines despite UCITS and AIFMD passports, which reduces competition and choice for investors. Although about 80% of UCITS funds and 40% of AIFs benefit from a passport, the proportion of funds actively marketed across borders is significantly lower. 70% of the total AuM are held by investment funds registered for sale only in their domestic market. Moreover only 37% of UCITS and about 3% of AIFs are registered for sale in more than 3 Member States.

Different factors hindering the cross-border distribution of investment funds in the EU have been identified by the EU Commission: (i) specific requirements imposed by domestic authorities including marketing requirements and fees, administrative obligations regarding the location of subscription, redemption and payment services and burdensome notification processes; (ii) differences in the implementation of UCITS and AIFMD rules across the EU; (iii) different national tax regimes applicable to investors and investments in funds, (iv) the prevalence of vertical or closed distribution models which mainly distribute in-house products and (v) cultural preferences for domestic products and insufficient financial literacy. Proposals made by the EU Commission target the first two sets of issues.

A package of measures was proposed by the EU Commission in March 2018 to tackle the main regulatory barriers hindering fund cross-border distribution

The legislative proposal made in the context of the CMU (consisting in a Directive introducing targeted amendments to the UCITS and AIFM Directives and a Regulation) aims to clarify and streamline domestic requirements affecting the cross-border distribution of funds and to improve the consistency of rules across the different EU fund frameworks.

Concerning marketing requirements, the proposal establishes a unified concept of pre-marketing which will allow asset managers registered in accordance with the AIFMD to test the appetite of specific professional investors for upcoming investment opportunities or strategies without being subject to domestic marketing requirements. The proposal also determines principles of clarity and fairness which marketing communications must fulfil and introduces obligations for the National Competent Authorities (NCAs) to publish on-line their rules, administrative provisions and procedures for marketing communication, while ESMA will maintain a dedicated central database. It moreover proposes a timeframe of a maximum of 10 days for the NCAs to decide on the compliance of marketing communications when this verification is required.

Regarding the fees charged by the NCAs in each Member State where funds are distributed, the text does not propose their harmonisation but sets common principles for determining these fees in a proportionate way to supervisory tasks and mandates the NCAs to publish and maintain on their websites central databases on the fees and charges and relevant calculation methodologies. ESMA should moreover publish and maintain online an interactive central database with these fees and charges and the calculation methodologies used by NCAs, as well as an interactive tool allowing the on-line calculation of these fees.

As for administrative obligations, the choice of how facilities to support local investors - e.g. for the subscription and redemption of shares and related payments and for the provision of information to investors - are provided (local presence, by phone or electronically) is left to the management company of the UCITS concerned.

Finally, proposals are made to further standardize and streamline the information flows between management companies and the NCAs regarding notification and de-notification procedures. ESMA is also required to enlarge its central database in order to include the information related to notifications concerning all management companies, the UCITS and AIFs they manage and where they are marketed. The conditions under which investment funds may exit a national market would also be harmonized.

A second EU legislative text which may impact the cross-border distribution of investment funds is the proposal to review the operation of the European Supervisory Authorities (ESAs)

The ESA review proposal indeed proposes that ESMA should be endowed with stronger powers to tackle inconsistencies in the implementation of EU laws (e.g. with powers to handle breaches of EU laws and to conduct independent reviews of the implementation of EU laws). This should help to tackle the current inconsistencies in the implementation of UCITS and AIFMD requirements in particular, which may contribute to hinder the cross-border distribution of these funds. Secondly the proposal has been made to transfer to ESMA certain fund-related activities such as the authorization of certain new categories of funds (ELTIFs, EuVECA and EuSEFs). This proposal is strongly debated, but could open the way to further discussions about the tools or supervisory activities that could be usefully centralized at ESMA level in order to facilitate the cross-border distribution of UCITS and AIFs (e.g. common databases and IT systems, reporting tools, processes in connection with notifications…).

16:00 to 17:00 | Sredetz Room

Insurance groups in the context of the CMU

In the context of the Capital Markets Union, this session is intended to clarify whether the insurance sector sufficiently contributed or not to developing market finance in the EU and whether it took over or not a significant portion of bank domestic and cross-border financings in the EU.

The main difficulties and impediments faced by the EU insurance sector in this respect and possible policy priorities to alleviate them will also be discussed.

SPEAKERS

Chair

Gabriel Bernardino
Chairman, EIOPA

Public Authorities

Burkhard Balz
MEP, ECON Committee, EPP Coordinator, European Parliament

Frédéric Hervo
Director for International Affairs, ACPR

Felicia Stanescu
Head of Financial Services Policy and International Affairs Unit, DG FISMA, European Commission

Industry Representatives

Tobias Bücheler
Head of Regulatory Strategy, Allianz

Cyril Roux
Chief Financial Officer, Groupama

POINTS OF DISCUSSION

Since the launching of the CMU, what are the main achievements which illustrate new forms of involvement of insurance companies in the financing of EU economies?

Is the involvement of the EU insurance sector in terms of equity, corporate bonds, securitisation, project financing sufficient to address CMU challenges? Is the insurance sector sufficiently contributing to improving cross border risk sharing throughout the EU?

What are the main difficulties and impediments faced by the EU insurance sector in this respect and the incentives provided by insurance regulations and accounting standards for this? What should be the appropriate policy priorities when addressing possible shortcomings and boosting insurance sector involvement in the development of the CMU? What would be the appropriate timetable, taking into account the global context?

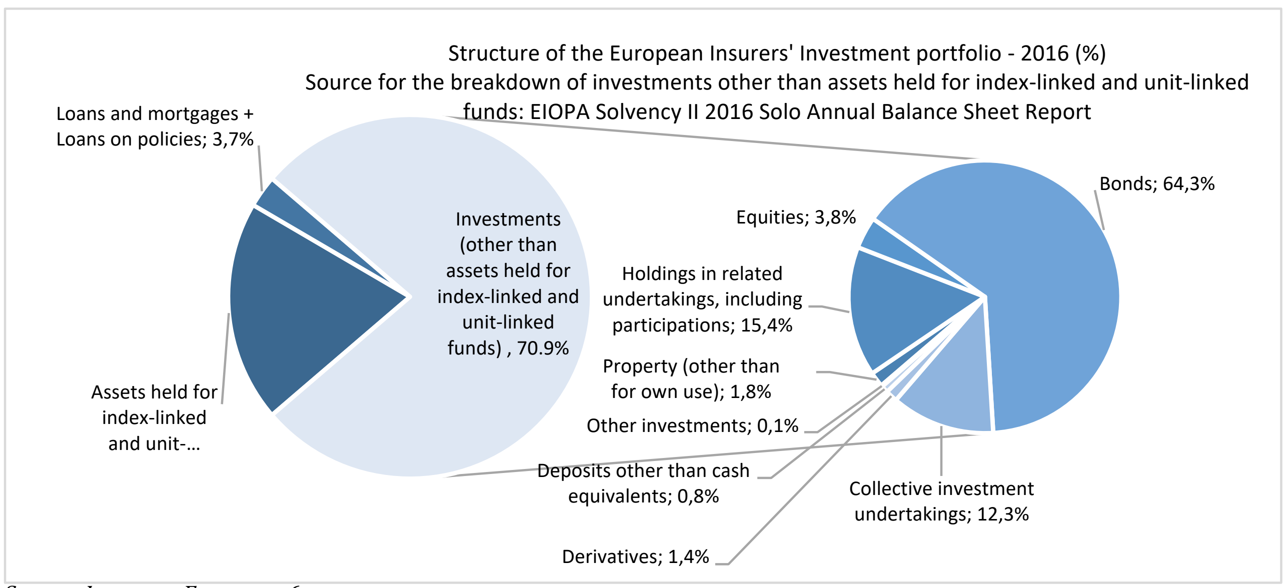
BACKGROUND PREPARED BY EUROFI

In order to address the investment crunch, notably with businesses and especially small and medium-sized ones, the EU launched in 2015 the CMU initiative in order to make the EU common capital market work better. This was happening in the post-crisis context of a reduced appetite of banks to lend stemming from tougher regulations. In addition, in certain countries banks were addressing the issues posed by bad debts in their balance sheets.

The CMU project targeted various areas for progress such as securitisation, which was expected to facilitate the banks off-loading their balance sheets.

It also undertook clearing obstacles to investors regarding notably insolvency and securities regimes. It tried on the issuers' side, to streamline prospectus requirements. The CMU project also took stock of the review of more than 20 pieces of EU financial legislation passed since 2009 to check for "unintended consequences" on financing.

In addition, the EIOPA notably in the context of the European Investment Plan, identified circumstances and recommended objective criteria such as financial ratios, intended to allowing to infrastructure assets the same treatment as rated debt and listed equity. In addition, EIOPA carried out an analysis of the treatment of unrated debt and unlisted equities to support improving insurers' ability to invest in private placement offerings and in private equity.



Source : Insurance Europe 2016

In the EU insurance companies are large investors. Their 2016 investment portfolio – more than 10trillion Euros - is about 60% of the GDP. Clearly, this sector is essential for developing market finance in the EU and it has taken over a portion of bank domestic and cross-border financings in the EU.

Yet, although the insurance sector developed its holdings of corporate bonds no general information is available any regarding significant evolution regarding equity holdings, or infrastructure financing, neither on systematic or high scale purchases by the insurance sector of bank portfolios notably those of SME loans.

17:00 to 18:00 | Sofia Room

Impact of bank prudential rules (FRTB, NSFR)

The objective of the session is to outline the challenges faced in the EU and at the global level, by the definition, calibration and implementation of the NSFR and FRTB global standards notably in the context of the delay to 1 January 2022 of the implementation dead line by the GHOS, and in the EU the need to push forward the Capita Market Union Project.

SPEAKERS

Chair

Andreas Dombret
Member of the Executive Board, Deutsche Bundesbank

Public Authorities

Olivier Guersent
Director General, DG FISMA, European Commission

Shunsuke Shirakawa
Vice Commissioner for International Affairs, Japan FSA

Rebekah Goshorn Jurata
Deputy Assistant Secretary, International Financial Markets, U.S. Department of Treasury

Industry Representatives

Burkhard Eckes
Partner, PwC Banking & Capital Markets Leader, EMEA, PwC, Germany

Craig Goldband
Managing Director, EMEA & Investment Bank Treasurer, UBS

Kim Laustsen
Chief Advisor, Nykredit

Faryar Shirzad
Managing Director, Goldman Sachs International

POINTS OF DISCUSSION

What are the main issues to be addressed regarding the design, calibration and implementation of FRTB / NSFR and expected adjustments by the BCBS?

What is the expected impact of these rules on financial firms, capital markets and the CMU?

Would possible delays in the implementation of the framework in certain geographies or differences in calibration raise significant issues?
What are the possible EU policy priorities suggested by the adjustments being prepared by the BCBS and the delays and uncertainties regarding the implementation of these frameworks notably in the US?

BACKGROUND PREPARED BY EUROFI

On 7 December 2017, the Group of Central Bank Governors and Heads of Supervision (GHOS) endorsed the final piece of post-crisis regulatory reforms (Basel III). Among these reforms the Net Stable Funding Ratio (NSFR) and a Fundamental Review of the Trading Book.

The NSFR is already being implemented in the EU through the CRR2 proposal. On market risk, notably since the BCBS is recalibrating the FRTB and banks have faced important implementation challenges, the FRTB framework has been delayed by the GHOS to 1 January 2022.

An impact study is necessary to achieve appropriate calibrations and adjust the design of the frameworks

These two reforms have important negative impacts on banks and more generally on market activities.

Actually NSFR, which captures the entire balance sheet and is one of the most complex standards in the Basel III package, is expected to have a stronger impact on markets and banks' business models than the Liquidity Coverage Ratio.

Regarding the FRTB a study for AFME on how banks actually respond to post-crisis regulations shows how they have been influencing banks' strategy and triggered significant deleveraging in capital markets activities. Actually related assets notably those related to rates, credit, commodities and equities, fell by 39%.

Overall annual regulatory costs on capital markets are estimated to near US$35bn while capital and leverage requirements account for 90% of the total regulatory charges. These costs are responsible for a 14 percentage point reduction in ROE before banks' mitigating actions. The study stresses that this trend is not limited to individual firms or regions.

In such a context, considering the anticipated sizeable increase of capital and liquidity requirements of trading activities, cumulative impact studies should be undertaken to enable a better calibration of forthcoming NSFR and FRTB reforms. In particular assessing the effects of regulations on products, instruments and asset classes is necessary.

In the EU it is notably relevant to understand the likely functioning of markets for less liquid asset classes which will impact the financing of SMEs as well as credit and rates/repo activities, which are essential for financial stability. In particular national authorities in the EU need to assess how structural peculiarities in their respective banking systems and markets, should be taken into account.

Significant adjustments are needed

These costs and burdens should be limited by addressing certain flaws regarding the design and calibration of these regulations such as:

NSFR: Asymmetric treatment of short-term transactions with financial counterparties (repo); inappropriate corporate bonds RSF factors; conditional pass-through (CPT) funding models are not acknowledged as a source of stable funding; disproportionate RSF factors for short-term equity positions held as hedges against equity swaps; disproportionate and risk insensitive funding requirements for gross derivative liabilities.

FRTB: design and calibration of FRTB disincentives to market-making on government bonds and dealing on corporate bonds due in particular to modellability criteria which weighs on smaller issuances; the current calibration of the standardised approach regarding equities, do not adequately recognises hedging benefits, and leads to cliff effects in terms of capital charges in case internal models cannot be used.

These issues need to be addressed notably to remain in line with the CMU objectives.

The extension of the implementation dead line gives time to review the calibrations of the standardised and internal model approaches notably to ensure consistency with the Committee's original expectations.

Effective and consistent implementation requires defining reasonable but mandatory deadlines

The extended implementation deadline to 1 January 2022 also provides banks with additional time to develop the necessary common or bank specific IT systems related to an extremely complex and data demanding new market risk framework.

However, the discussions in the Basel Committee, but also national discretion introduced in the Basel NSFR framework, create uncertainty about how it will be used by other jurisdictions.

More generally, the additional four or five years which are likely to pass before the FRTB and NSFR are implemented resulting from the complex legislative procedure by which Basel recommendations are transposed into EU law, should not undermine some more proportionate approaches, which were proposed by the Commission (CRR2) notably those regarding covered bonds.

Several European banks are concerned by the fact that there is excessive regulatory uncertainty, also due to the review by the US of the framework.

Large firms active at the global level in particular, need to know what is expected in different regions. Therefore, deadlines have to be officially set and given a legally binding character and a rigorous schedule is therefore key at the global level otherwise banks would most likely cut back their project budgets.

While the EU approach to implementing the NSFR and FRTB has to follow closely the relevant Basel frameworks, it is important to ensure that the prudential purpose of the rules and the global level playing field are not compromised. In the December 2017 agreement by GHOS, all the Basel member jurisdictions have committed to such implementation.

17:00 to 18:00 | Sredetz Room

Developing equity investment and financing in the EU

This roundtable will discuss the current trends in equity financing and investment in the EU, the main priorities for further developing EU equity markets and related challenges, the likely impacts of on-going legislative actions (related to the CMU and MiFID II) and whether additional policy or market-driven actions are needed to foster further growth of these markets.

SPEAKERS

Chair

Denis Beau
First Deputy Governor, Banque de France

Public Authorities

Lee Foulger
Head of International Department, FCA

Nicoletta Giusto
Senior Director, Head of the International Relations Office, CONSOB

Industry Representatives

Anthony Attia
Chief Executive Officer of Euronext Paris and Global Head of Listing Member of the Managing Board, Euronext

Sophie Barbier
Head of European Affairs, CDC

Michael Leinwand
Chief Investment Officer, Zürich Beteiligungs-AG

Experts

Jean-Jacques Bonnaud
Member of the Board and Treasurer, EUROFI

Niels Lemmers
Managing Director, European Investors' Association

POINTS OF DISCUSSION

What are the current status and main trends of equity markets in the EU? What are the main obstacles and challenges to the further development of equity markets in the EU? What are the key priorities to consider on the supply and demand sides?

Are on-going and planned EU policy initiatives (i.e. MiFID II, CMU-related initiatives...) sufficient to remove the main obstacles to the development of EU equity markets? What additional incentives or legislative actions might be needed on the issuer and investor sides? What role may key market players play (i.e. stock exchanges, NPBI,...) in the further development of equity markets?

18:00 to 18:20 | Sofia Room

Keynote speech

SPEAKER

Michel Barnier
Chief Negotiator, Taskforce on Article 50 negotiations with the United Kingdom, European Commission

18:20 to 19:00 | Sofia Room

Exchange of views: **Addressing the obstacles to further integration of EU banking markets**

The objective of this session is to explain the low level of cross-border consolidation of banking groups in Europe and to discuss the possible measures which could foster EU banking integration.

Speakers will be invited notably to express their views on the main obstacles of further integration of EU banking markets and to propose solutions that may address these obstacles to benefit from the private risk sharing and capital allocation of the Banking Union.

SPEAKERS

Chair

Vincenzo La Via
Director General of the Treasury, Ministry of Economy and Finance, Italy

Public Authorities

Andreas Dombret
Member of the Executive Board, Deutsche Bundesbank

Roberto Gualtieri
MEP & Chair, ECON Committee and Member of the Brexit Steering Group, European Parliament

Elke König
Chair, SRB

Danièle Nouy
Chair of the Supervisory Board, Single Supervisory Mechanism, ECB

Johan Van Overtveldt
Minister of Finance, Belgium

Industry Representative

Jean-Jacques Santini
Head of Group Public and Regulatory Affairs, BNP Paribas

POINTS OF DISCUSSION

How to explain the low level of cross-border consolidation and integration in the banking union? Can further progress be expected in the short term?

How to foster more integration in the EU banking market and address the obstacles that currently hinder further integration (e.g. lack of trust between Member States, EU bank regulatory frameworks considering the EU subsidiaries of banking groups on a solo basis, limitations in the BRRD to group support, different treatment of creditors of the same rank in case of failure of transnational banking group...)?

19:00 to 19:30 | Sofia Room

Speeches: **Is multilateralism weakening?**

SPEAKERS

Valdis Dombrovskis
Vice-President for the Euro and Social Dialogue, also in charge of FISMA, European Commission

David Lipton
First Deputy Managing Director, IMF

David Wright
President, EUROFI

19:30 to 20:30 | Sofia Room

Future of global financial regulatory and supervisory coordination

Following the 2008 crisis, global cooperation on financial regulation has become increasingly important over the last decade to achieve a resilient financial system. Ten years have passed since the onset of the worst financial crisis since the Great Depression. In 2009, the G20 launched a comprehensive programme of reforms, coordinated through the Financial Stability Board (FSB), to increase the resilience of the global financial system while preserving its open and integrated structure. Timely and consistent implementation of these reforms is essential to achieve sustainable growth.

The objective of this session is to discuss the perspectives for global financial regulation in a context where some jurisdictions want to act independently or make sure that regulation takes into account their own specificities. Speakers will also be invited to explain if standardized regulations globally were able to take account of the differences in both the risk profiles and economics of individual banks and the economies in which they operate.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Olivier Guersent
Director General, DG FISMA, European Commission

Luiz Awazu Pereira da Silva
Deputy General Manager, BIS

Olivier Prato
Head of Basel III Implementation, BCBS

Shunsuke Shirakawa
Vice Commissioner for International Affairs, Japan FSA

Sharon Yang
Director, International Financial Markets, U.S. Department of Treasury

Industry Representatives

Sandra O'Connor
Chief Regulatory Affairs Officer, JP Morgan Chase & Co

Shiro Shiraishi
General Manager, Mizuho Bank, Ltd.

POINTS OF DISCUSSION

What are the main pending issues in terms of global regulation of financial regulation?

Now that post crisis G20 reforms are being implemented, is global regulatory activity really slowing down? What are the key new areas where global coordination is necessary? How can the standard setting process be improved at the international level (level of granularity, disputes settlement, enforcement powers...)?

What are the perspectives for future global financial regulation and coordination in a context where some key jurisdictions are veering away from multilateralism? Is there a danger that trade disputes could spill over into the financial area?

International cooperation plays a crucial role in strengthening the global financial system

The financial system is truly global. Global regulatory and supervisory coordination is therefore essential to preserve a level playing field across financial markets and mitigate the risks associated with global firms and highly interconnected activities. Achieving the G20's objective of strong, sustainable and balance growth requires open markets, durable international capital flows, resilient financial institutions and robust sources of market based finance.

The benefits of international regulatory standards are yielded in four major areas:

1. supporting the flow of capital to investment opportunities;
2. promoting greater and more fair competition, and better pricing and services for borrowers and end-users;
3. reducing compliance costs and increasing efficiencies;
4. supporting financial stability.

Ideally, international cooperation frameworks should be anchored on a framework of binding international law. As Lord Bingham stated "cross-border problems call for cross-border solutions, which can only be provided by a coherent body of enforceable international rules".

Given the context of highly interconnected and cross-border financial markets, the efforts to strengthen international financial coordination should be sustained. The risks of regulatory arbitrage or a regulatory race to the bottom among jurisdictions need to be avoided.

Convergence in financial regulation is one of the most important components of a sustainable open economy

Finance is the most mobile production factor, and therefore the most likely to cause dangerous spillovers. We should remember that diverging financial regulation would endanger not only financial openness, but also global trade, since they are often two sides of the same coin: finance and trade are complementary in spreading knowledge and underpinning global value chains. Consequently, organisations, which exist to create convergence in financial regulation and supervision, such as the Financial Stability Board and the Basel committees, are key, in this context, to increasing trust between countries.

One of the key ingredients for raising productivity is openness: open trade, investment and financial flows play a key role in the diffusion of new technologies across borders that drive forward efficiency improvements. The social consensus on open markets has, however, been weakening in recent years. People are concerned about whether openness is fair, whether it is safe and whether it is equitable. Fears about fairness, safety and equity ultimately reflect a lack of trust in other countries' regulation and enforcement.

M. Draghi explained that in each case, multilateral co-operation, leading to regulatory convergence, is a precondition for addressing the underlying causes of these concerns. When disaffection with openness is growing, multilateral institutions become more, not less important. They provide the best platform to address concerns about openness without sacrificing open markets.

Challenges to achieve international standards and cooperation

Enforcement of standards and sanctions

International financial standards today are drawn up by a patchwork of global institutions none of which have the attributes of being formal Treaty based international organisations. Their standards and recommendations are not-binding on neither their members nor the timeframes in which they should be adopted.

Implementation is left to each member and although there are weak peer-review oversight mechanisms as in the FSB case, there are no enforcement powers, no international court to appeal to or sanction mechanisms for recalcitrant or irresponsible states.

Multilateral regulatory bodies have no authority other than moral suasion, and it remains the domain of national authorities to incorporate international standards into national laws and regulations under their own due processes; enforcement is based on peer pressure, coloured diagrams and prayer; and there are no binding disputes settlement arrangements -formal or informal- for faulty or negligent implementation or to deal with cross- border disputes. This matters because of global interconnectivity, risk propagation, contagion and the propnsity for cyclical periodic financial crises.

Dispute resolution mechanisms

There are no binding international dispute settlement mechanisms, formal or informal, in the global financial institutions to resolve faulty or inaccurate implementation of global standards or to deal with cross-border disputes. The WTO however does have a binding dispute-settlement system for WTO Contracting Parties (CPs) set up in the Uruguay Round which, ceteris paribus, has worked reasonably well.

Building strong incentives to cooperate on enforcement

In the absence of formal treaty based institutions with binding legal powers or enforceability through a court, international financial policy making only has a set of weak set of tools at its disposal – among which, peer pressure, comparability and "naming and shaming". However, there are a few soft law tools that have led to considerable successful enforcement by cleverly aligning regulatory and supervisory incentives.

The best example of this is the IOSCO Multilateral Memorandum of Understanding (MMoU) now more than ten years old. It is a Cooperation and the Exchange of Information system that standardises the process by which securities regulators who are members of IOSCO can obtain information from other members for enforcement purposes, such as tracking down market abuse or insider trading. The MMoU was used to exchange vital cross-border information in the LIBOR cases. Becoming a MMoU member requires rigorous ex-ante legal vetting by a team drawn from existing members. The examination requires proof that the candidate securities regulator complies with all aspects of the MMoU including the provision of bank and telephone records and transactions reporting. Over 110 securities regulators around the world are MMoU signatories and share essential information on over 3000 cases per year.

The beauty of the system is that it aligns incentives – everyone needs each other to get hard, verifiable evidence to bring enforcement cases before the courts. The second powerful incentive is that those outside the MMoU all want to get into the system because it is seen by international investors as a cachet of good market practice which is of considerable value. Thirdly, the more the regulators and supervisors cooperate and trust each other with sensitive information the more the system grows, as it has done exponentially.

21:00 to 23:00 | Largo

Gala Dinner

KEYNOTE SPEECH

Dimitar Radev
Governor, Bulgarian National Bank

07:45 to 08:40 | Sofia Room

Exchange of views: **Deepening the EMU: what next?**

The current favourable environment provides a window of opportunity to improve the resilience of the EU economy and strengthen the euro area architecture. The objective of the exchange of views is to discuss the ambition for deepening EMU, the priorities to progress on private risk sharing in the Banking Union, and developing the ESM further.

SPEAKERS

Chair

Klaus Regling
Managing Director, ESM

Discussants

Paschal Donohoe (tbc)
Minister, Department of Finance, Ireland

Pierre Gramegna
Minister of Finance, Luxembourg

Peter Kazimír (tbc)
Minister of Finance, Slovak Republic

Pier Carlo Padoan
Minister of Economy and Finance, Italy

Euclid Tsakalotos
Minister of Finance, Greece

POINTS OF DISCUSSION

What should be the level of ambition for deepening EMU?

What are priorities for progressing in cross-border private risk sharing for the Banking Union?

How to develop the ESM to deepen the EMU – what is needed?

BACKGROUND PREPARED BY EUROFI

In view of the June 2018 European Council, European leaders agreed that work on deepening EMU would concentrate on two areas where the convergence of views has been the greatest: the completion of the Banking Union and the further development of the ESM.

Strengthening Banking Union

More integrated banking markets would foster more effective capital allocation and private risk sharing across the EU, which are essential to absorb potential asymmetric economic shocks and move towards a genuine Economic and Monetary Union.

The roadmap to complete the Banking Union recognises the need to adopt further measures for reducing and sharing risks in the financial sector. The main risk-sharing elements to enhance the financial robustness of Banking Union are the creation of a common backstop to the Single Resolution Fund (SRF) and a common European deposit insurance scheme (EDIS), see page 71 of the programme.

The completion of the Banking Union with EDIS and a backstop to the SRF would improve financial stability. Further integration of the EU banking sector is mainly hindered by the lack of recognition of banking groups in EU legislation and a persistent national approach regarding the regulation underpinning bank resolution and liquidation.

Addressing this situation requires proposing additional solutions improving the consistency and the predictability of transnational bank resolutions and allowing the management of liquidation at the group level with no difference of treatment among creditors of the same rank within the group. This entails that all the subsidiaries of these transnational groups should benefit from an unconditional financial support of the Group.

This is already the way groups structured around branches function. This is not currently possible for the other banking groups since the solo approach prevails for banking regulation (see related proposals in the Eurofi working paper and page 67 of this programme)

Further Developing the ESM

The euro area rescue funds

The European Financial Stability Facility (EFSF, established in 2010) and the European Stability Mechanism (ESM, established in 2012) are part of the Europe comprehensive package of measures in response to the crisis. They are the lender of last resort for sovereigns in the euro area. They provide emergency loans combined with strict conditionality to euro area countries that lose market access.

The 19 euro area Member States provided the ESM with a capital totaling €700 billion, of which €81bn is paid-in. This capital serves as security for investors and it is the reason for good credit ratings from the rating agencies. It allows the ESM to raise capital at low interest rates. The EFSF is covered by euro area Member State guarantees. The ESM and EFSF raise money from investors by issuing bonds and bills. The rescue funds are among the largest bond issuers in the euro market.

Since 2011, the EFSF and the ESM have provided a total of €279bn in loans to five countries: Greece, Ireland, Portugal, Spain and Cyprus. Today, four out of five programme countries are clear success stories, with the highest growth rates in Europe and rapidly declining unemployment. Greece is the only remaining ESM programme country. If Greece continues to implement reforms it can become the ESM's fifth success story when the programme ends in August 2018.

Possible new tasks for the ESM

Strengthening the ESM would help make monetary union even more robust and crisis-proof. A number of possible new tasks have been proposed and include: providing a backstop for the SRF; designing, negotiating and monitoring surveillance programmes together with the Commission; regular monitoring of euro area countries; catering for possible new fiscal facilities, and managing a sovereign debt restructuring framework.

The first of the new possible tasks would be to provide a backstop for the SRF. There is a broad consensus among euro area Member States that the ESM should assume this role.

The ESM could also play a more important role in future rescue programmes. The role of the IMF in the programmes has become much smaller since 2010 while the role of the ESM has increased. Today, the ESM has its own know-how and necessary financial firepower. The ESM has increasingly been involved in the preparation and review of the programme Greek programme. The development of adjustment programmes – their design, negotiation and monitoring – could become a joint task of the Commission and the ESM. For the ESM to be able to do this, it would need to be in regular contact with euro area Member States also outside ESM programmes. Competences in the area of economic policy coordination and surveillance assigned to the Commission in the EU Treaty must be respected. The ESM could do complementary work, focusing on proper strengths and, for example, analyse issues related to debt sustainability, financial stability and market access.

It has also been suggested that the ESM could manage new facilities such as for macroeconomic stabilisation. This could take the form of short-term ESM loans to be repaid within a business cycle and with lighter conditionality than regular ESM programmes. Other proposals on the fiscal side involve an annual budget for European public goods and a euro area budget. A euro area budget for investments or a revolving fund to provide loans to individual countries to deal with asymmetric shocks have also been proposed. Rainy day funds or a complementary unemployment insurance exist in most U.S. states. They do not lead to permanent transfers or debt mutualisation between the participants.

Such facilities could be combined with a more transparent system for burden-sharing with private creditors in case of a sovereign debt restructuring. The aim would be to create a predictable framework for debt restructuring negotiations with private creditors. The emphasis is on 'negotiation' and excludes 'automaticity' for maturity extensions, which would have a pro-cyclical effect and accelerate a crisis, which could have otherwise perhaps been avoided. The ESM with its experience in debt sustainability and activities in the market could take on the role of a neutral moderator within the context of such a predictable framework.

08:40 to 09:45 | Sofia Room

Addressing fragmentation issues in the Banking Union

The objective of this session is to discuss the reasons why banking markets are so fragmented in the Eurozone despite the implementation of the Single Supervisory Mechanism and the Single Resolution mechanism and the possible way-forward. Speakers will also be invited to express their views on the priorities to foster cross-border consolidation in the euro area.

SPEAKERS

Chair

Sylvie Goulard
Second Deputy Governor, Banque de France

Public Authorities

Andrea Enria
Chairperson, EBA

Edouard Fernandez-Bollo
Secretary General, ACPR

Levin Holle
Director General, Financial Markets Policy, Federal Ministry of Finance, Germany

Kalin Hristov
Member of Governing Council, Deputy Governor, Issue Department, Bulgarian National Bank

Korbinian Ibel
Director General, Micro-Prudential Supervision IV, ECB

Industry Representatives

Jose Manuel Campa
Global Head of Regulatory Affairs, Grupo Santander

Nicolas Duhamel
Head of Public Affairs, Member of the Executive Committee, Groupe BPCE

Koos Timmermans
Chief Financial Officer Executive Board, ING Groep N.V. & Vice Chairman Management Board Banking, ING Bank

POINTS OF DISCUSSION

How to explain the deepening of banking fragmentation (e.g. capital, liquidity, leverage requirements defined on a solo basis, additional capital charges for systemically important banks regarding their cross-border Eurozone exposures, possible local external MRELs, collateralization of internal MRELs.) despite the implementation of the Banking Union? What are the possible ways-forward?

How to explain the low level of cross-border consolidation in the Banking Union?

The EU legislative prudential framework does not recognize trans-national groups at the consolidated level but as a sum of separate subsidiaries ("solo approach")

Much progress has been made in a limited amount of time with the achievement of a common banking rulebook and the establishment of the institutions of the Banking Union: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

However, further integration of EU banking markets is hindered by the present domestic bias of the EU banking regulatory framework. The integration of banking markets within the Banking Union is still very limited. The 20 or so trans-national banking groups that operate within the Union currently function more like a collection of national banks than as integrated banking groups and therefore only play a limited role in terms of intra-Union risk sharing and capital allocation.

This is mainly due to the "national and solo approach" of the EU banking regulatory framework (CRD, CRR, BRRD) which does not consider trans-national banking groups in the EU at the consolidated level, but as a sum of separate subsidiaries. This was not reviewed when the Banking Union was implemented.

The Liquidity Coverage Ratio (LCR), which is designed to ensure that banks have the necessary assets to face short term liquidity disruptions, is indeed calculated on a solo basis since liquidity excesses in one subsidiary cannot be used to compensate for possible shortages in other ones.

The EU Commission has also proposed that the Net Stable Funding Ratio (the NSFR agreed in Basel which seeks to calculate the proportion of long term assets which are funded by long term stable funding and is currently being discussed in order to be transposed in the EU legislative framework) should be calculated both at consolidated level and on a solo basis. This would oblige banking groups to manage their long term funding also on a local basis which would be more complex and costly.

Another area where bank groups may not be considered on a consolidated basis from a regulatory point of view is the calibration of Minimum Requirement for own funds and Eligible Liabilities (MREL) currently discussed in the context of the BRRD/SRMR where domestic resolution authorities may have the possibility to add MREL to local subsidiaries of banking groups on top of the MREL decisions made by the SRB. This may lead the subsidiaries of banking groups to have different levels of MRELs from those of domestic banks of an equivalent risk profile and the sum of local MREL to exceed the level of MREL defined at the group.

A further issue is that banking operations of a banking group between two EU countries, including in the Euro area, continue to be considered as cross-border operations by the EU prudential legislative framework in the calculation of the Global Systemically Important Bank (GSIB) systemic risk buffer.

In addition, the single rulebook is not truly single, since it contains national options and discretions (OND), which provide government and supervisors with some leeway in applying the rules. Supervision also remains fragmented even if the SSM has harmonised the main tool of banking supervision: the Supervisory Review and Evaluation Process (SREP). However the SREP remains a collection of requirements (capital, liquidity, leverage) regarding both the group as a whole and each of its subsidiaries. Moreover certain supervisory tools are applied in different way in different countries (e.g. onsite inspections) and tools exist in some countries but not in others (e.g. moratorium).

All in all, in the current situation, transnational banking operations are more complex and costly compared to domestic ones, which is a result of additional regulatory requirements (national and solo approaches).

Concerns about the way possible banking group resolutions may be handled in the EU are the main underlying factor of this non recognition of banking groups

Many Member States, which are dependent on Eurozone banks situated in other Member States for the financing of their economies are not inclined to move towards a more integrated management of capital and liquidity at banking group level, despite the common supervision of Eurozone banking groups. This is because they are concerned by the impact that the possible failure of one of these financial transnational groups might have on their depositors and on their economies, and by the fact that these impacts would have to be addressed entity by entity domestically.

Three main factors explain these concerns (aggravated by the slow resolution of NPLs and persistent economic imbalances):

- The availability of group financial support to a failing subsidiary is not guaranteed but conditional in case of bank failure according to the rules of the BRRD.
- No rule currently prevents liquidity from being abusively removed from a foreign subsidiary by the parent company prior to resolution.
- The treatment of bank failures across the EU is not sufficiently harmonised, consistent and predictable.

A more integrated approach to resolution and liquidation is needed for reaping all the benefits of the Banking Union

Developing private risk sharing through banking activities within the euro zone requires that the financing activities of transnational banks take place across jurisdictions. Thus capital and liquidity should circulate freely within these banking groups. For this to be possible, i.e. addressing the three factors mentioned above, which explain the concerns of many Member States, these groups have to be treated in practice as a single entity from an operational, regulatory, supervisory and liquidation perspective.

The current solutions for completing the Banking Union (EDIS, backstop to the Single Resolution Fund) would strengthen the credibility of the bank crisis management therefore contributing to achieving the initial financial stability objectives of the Banking Union. However EDIS and the SRF backstop would not address the current fragmentation issues in the EU banking markets.

Addressing this situation requires proposing additional solutions improving the consistency and the predictability of transnational bank resolutions and allowing the management of liquidation at the group level with no difference of treatment among creditors of the same rank within the group. This entails that all the subsidiaries of these transnational groups should benefit from an unconditional financial support of the Group.

This is already the way groups structured around branches function. This is not currently possible for the other banking groups since the solo approach prevails for banking regulation (prudential, recovery and resolution). Therefore specific solutions are therefore needed to increase the consistency and predictability of potential trans-national bank resolutions at EU level and eventually allow a circulation of liquidity and cash at group level (see Eurofi working paper).

08:40 to 09:45 | Sredetz Room

Priorities for further integrating EU post-trading

The objective of this session is to discuss the state of play of the EU post-trading environment following the implementation of EU legislations and of T2S, the further improvements that can be expected from on-going initiatives and the key priorities remaining to be addressed (e.g. following the EPTF report) for achieving a sufficient level of post-trade harmonization and integration in the EU. The panel will also discuss forthcoming challenges and opportunities that may impact the EU post-trade environment such as Brexit and technological innovation.

SPEAKERS

Chair

Yves Mersch
Member of the Executive Board, ECB

Public Authorities

Ugo Bassi
Director, Financial Markets Directorate, DG FISMA
European Commission

Jochen Metzger
Director General Payments and Settlement Systems,
Deutsche Bundesbank

Kay Swinburne
MEP & Vice-Chair, ECON Committee,
European Parliament

Industry Representatives

Laurence Caron-Habib
Head of Strategy, Public Affairs and CSR,
BNP Paribas Securities Services

James Cunningham
Managing Director and Senior Advisor, Public Policy and Regulatory Affairs, BNY Mellon

Andrew Douglas
Managing Director, Government Relations
(EMEA and APAC), DTCC

Lieve Mostrey
Chief Executive Officer, Euroclear

POINTS OF DISCUSSION

What is the current status of the EU post-trading environment? Can more harmonization and integration be expected in the short / medium term with on-going initiatives and market developments (e.g. implementation of T2S, ECMS, EU legislations such as MiFID II, EMIR, CSDR, SFTR, CMU-related initiatives…)? What are the priorities and next steps following the European Post Trade Forum (EPTF) report?

What are the forthcoming opportunities and challenges in the EU post-trade sector in the coming years and how should they be addressed by legislators and the industry? Can technological innovation (fintech, DLT…) significantly accelerate integration in post-trading? What other factors or events may have an impact on EU securities post-trading (e.g. Brexit, tighter monetary conditions…)?

NEXT EUROFI EVENTS

5, 6 & 7 September 2018
Vienna - **Austria**

3, 4 & 5 April 2019
Bucharest - **Romania**

September 2019
Helsinki - **Finland**

DAY 3 | 27 APRIL MORNING

09:45 to 10:45 | Sofia Room

Success factors and expected benefits of an agreement on EDIS and the backstop to the SRF

A single European Deposit Insurance Scheme (EDIS) remains one of missing pieces of the Banking Union. All depositors within the Banking Union should enjoy the same level of protection. In this way, the European Deposit Insurance Scheme would underpin stability in the banking sector by providing strong and uniform insurance coverage for all such depositors, independent of their geographical location in the Banking Union.

The Banking Union also still lacks an effective, common backstop. The creation of such a backstop for the Single Resolution Fund was agreed by Member States already nearly 4 years ago in 2013. It needs to be made operational now so as to reinforce the overall credibility of the bank resolution framework within the Banking Union.

The objective of this session is to discuss the key success factors needed for the adoption of the legislative proposal of the EU Commission for a common deposit insurance scheme and the backstop to the Single Resolution Fund (SRF). Speakers will also be invited to assess the improvements brought about by this backstop and the EDIS proposal to the Banking Union.

SPEAKERS

Chair

Sabine Lautenschläger
Member of the Executive Board and Vice-Chair of the Supervisory Board, ECB

Public Authorities

Olivier Guersent
Director General, DG FISMA, European Commission

Felix Hufeld
President, BaFin

Elke König
Chair, SRB

Luděk Niedermayer
MEP & Vice-Chair, ECON Committee, European Parliament

Industry Representatives

Ricardo Gómez Barredo
Head of Accounting & Supervisors, BBVA

Fabrizio Saccomanni
Chairman, UniCredit S.p.A.

Karl-Peter Schackmann-Fallis
Executive Member of the Board, DSGV

POINTS OF DISCUSSION

What are the expected contributions of EDIS and the backstop to the SRF for deepening the Banking Union?

What are the main remaining issues to obtain an agreement on EDIS and the backstop to the Single Resolution Fund?

BACKGROUND PREPARED BY EUROFI

A European deposit insurance scheme (EDIS) for bank deposits in the euro area

To ensure that deposits are truly safe everywhere across the euro area, the likelihood that a bank might fail has to be independent of the jurisdiction where it is established. And, when push comes to shove, depositors must be afforded similar protection wherever they are located.

Successive EU-level reports, including the Four Presidents' Report of 2012 and the Five Presidents' Report of 2015, have highlighted a European deposit Insurance Scheme (EDIS) as a necessary component of the Banking Union. In November 2015 the European Commission put forward a legislative proposal to establish a single European Deposit Insurance Scheme (EDIS) that would complement existing national deposit guarantee schemes and which would provide stronger and more uniform insurance cover for all retail depositors in the Banking Union regardless of their geographical location.

EU legislation already ensures that all deposits up to €100 000 are protected, through their national deposit guarantee scheme (DGS), in case of a bank failure. Through a single fund, EDIS would also ensure equal, high quality protection of all depositors across the Banking Union in case of banks' failures. It would have more resources than national deposit guarantee funds to cope with large local shocks.

Co-legislators have not yet adopted the proposal. In its Communication dated 11 October 2017, the Commission considered possible ideas in an attempt to address the diverging views and concerns that emerged during the negotiations and to steer the discussions in the European Parliament and the Council. In particular, EDIS could be introduced by the co-legislator more gradually:

- In the reinsurance phase, EDIS would provide liquidity to national Deposit Guarantee Schemes (DGS) in case of a bank failure, which would have to be paid back by the national DGS. Liquidity support is the most essential element to ensure that depositors are paid out.
- In the coinsurance phase, EDIS would also cover losses, without recouping them from the national DGS. This would further reduce the link between banks and their Member States. However, moving to this second phase would be conditional on the progress achieved in reducing the level of NPLs and other legacy assets assessed through an Asset Quality Review (AQR).

Further adjustments to the Directive on deposit guarantee schemes (DGSD) could also be considered. These national schemes have been essential in offering better protection to depositors, though differences remain from one country to the next. The harmonisation of national deposit schemes needs to progress in parallel with the establishment of EDIS. This would ensure the correct functioning of EDIS and favour the exchange of information and cooperation among national DGSs, the Single Resolution Board (SRB) and the European Banking Authority (EBA).

A backstop to the Banking Union

A backstop is a "safety net". In the Banking Union context, a backstop would be activated in cases when, in spite of high-quality supervision, one or more banks are in crisis, and even after imposing losses on the banks' shareholders and creditors, there is a need for further resources because the Single Resolution Fund ran out of money. This safety net is not meant to be used as a default option. Rather, it aims to instil confidence in the European banking sector in that it would be available as a last resort, should less favourable conditions materialise, and will thereby further increase the protection of taxpayers. It would enhance the financial capacity of the Single Resolution Mechanism to cope with several bank resolutions at once. Importantly, such a backstop would be fiscally-neutral as the banking industry would repay any potential disbursements over the medium term.

When the Single Resolution Mechanism was established, Member States agreed to develop a common backstop to the Single Resolution Fund. In the European Council Conclusions of December 2012, they agreed that the SRF should be fiscally neutral over the medium term as contributions would be recouped from contributions from the banking sector. The European Parliament also called "for rapid progress in the work by the Council and the Commission on a common fiscal backstop for the SRF" in its 2016 annual Banking Union report.

The SRF is funded by ex-ante contributions from the banking sector. In case those are not sufficient, extraordinary ex-post contributions can be raised. However, both ex-ante and ex-post contributions are limited. A backstop would significantly strengthen the credibility of the Banking Union by ensuring that the SRB can fully safeguard financial stability and protect taxpayers even with limited ex-ante funding.

Resolution authorities may only use the backstop as a last resort. In their resolution plans, the SRB and the National Resolution Authorities identify banks' recapitalisation and liquidity needs, and how they should be funded. In principle resources from the bank's shareholders and creditors should cover those needs. They can be supplemented by the SRF. Only in case these resources are insufficient, would the backstop come in as a last resort.

The Commission supports the ongoing work with regard to a credit line from the European Stability Mechanism (ESM). This work stream will need to be pursued and articulated with the Commission's forthcoming package of proposals for the deepening of the Economic and Monetary Union, which will include a proposal to transform the European Stability Mechanism into a European Monetary Fund, within the framework of Union law. In this context, it will also be important to ensure an efficient decision-making process that will allow for a swift deployment of the backstop, in those last resort situations where this might become necessary.

09:45 to 10:45 | Sredetz Room

MiFID II implementation opportunities and challenges

The objective of this roundtable is to discuss the experience so far with the implementation of MiFID II, the likely impacts of MiFID II requirements on the structure, efficiency and transparency of EU securities and derivative markets and the related benefits and possible downsides for investors and the financial market. The panel will also discuss the implications of Brexit for MiFID II and whether any parts of the legislation may require adapting to the new EU market context post-Brexit.

SPEAKERS

Chair

Markus Ferber
MEP, 1st Vice-Chair, ECON Committee, European Parliament

Public Authorities

Ugo Bassi
Director, Financial Markets Directorate, DG FISMA, European Commission

Karina Karaivanova
Chair, Financial Supervision Commission, Bulgaria

Klaus Kumpfmüller
Executive Director, Austrian FMA

Verena Ross
Executive Director, ESMA

Industry Representatives

Alexandra Hachmeister
Chief Regulatory Officer, Deutsche Börse Group

Vincent Remay
Advisor to the Chairman, Tradition

POINTS OF DISCUSSION

What is the experience so far with the implementation of the key MiFID II requirements? Have any issues appeared?

Has MiFID II led so far to significant changes in the structure, efficiency and transparency of EU securities and derivatives markets given on-going developments? What are the expected benefits and possible downsides for EU investors and the EU market?

What are the main implications of Brexit for MiFID II and which parts of MiFID II may require adaptation to the new EU market context post-Brexit?

Objectives and scope of MiFID II

MiFID II and MiFIR, which were adopted following the review of MiFID I, were implemented in the EU on January 3rd 2018. The objective of this new legislative framework, usually referred to as MiFID II, is to further strengthen investor protection, improve the functioning of financial markets, making them more efficient, resilient and transparent, and also tackle some of the issues raised by MiFID I.

MiFID I indeed brought greater competition across Europe in the equity trading space, increased transparency obligations and set new conduct of business rules for providing investment services, but also demonstrated some shortcomings such as the lack of coverage of bond and derivative instruments and the development of unregulated and non-transparent trading platforms in equity markets it led to (e.g. broker crossing networks, dark pools…). Some new technological developments in the market (algorithmic trading / high frequency trading (HFT)) also needed to be taken into account, as well as the implementation of the G20 post-crisis requirements to trade sufficiently standardized and liquid OTC derivatives on electronic platforms.

MiFID II covers a broad range of areas and should substantially change trading models, transaction reporting, how the buy-side sources research and distributes its products, how investors interact with advisors and the information they receive and also how supervisors monitor markets.

Detail of MiFID II measures and possible issues

The new legislation firstly introduces trading obligations that should significantly impact EU market structure, mandating that shares and sufficiently standardized and liquid bonds and derivatives should be traded on regulated platforms and introducing a new type of multilateral platform (OTFs) for the trading of non-equity instruments. Volume cap mechanisms have also been implemented to limit the volume of trading of liquid equity instruments on regulated dark pools. Consequently, internal multilateral matching systems operated by banks (e.g. crossing networks) now have to be authorized as multilateral trading facilities (MTFs) and the volume executed OTC should significantly diminish. It is however still unclear where the transactions currently happening on these platforms will migrate to.

MiFID II also introduces rules on algorithmic and HFT trading in order to ensure that investment firms engaging in these activities have appropriate systems and risk control mechanisms in place to ensure market resilience and integrity and that those pursuing a market making strategy fulfill all related obligations.

Transparency obligations have also been broadened with an extension to all traded financial instruments that are sufficiently liquid of pre and post-trading transparency requirements, while maintaining some waivers notably for large in scale orders. An obligation for systematic internalisers (Sis) to make their quotes public on a continuous basis has also been introduced, but requirements remain lower than those of regulated markets (RMs) or MTFs.

MiFID II should also help to improve the oversight of financial markets, with obligations for investment firms to maintain more detailed trade data at the disposal of the competent authorities. The objective of these different measures is to better ensure best execution and price discovery for investors and to provide supervisors with the information needed to prevent market abuse and assess counterparty risks.

MiFID II moreover aims to enhance investor protection and conduct of business rules with measures to improve the information that investors are provided with, additional requirements for advisors to assess the suitability and appropriateness of the investments proposed and stricter rules for those providing advice on an independent basis, as well as rules regarding the remuneration of investment firm staff. MiFID II also grants ESMA increased intervention powers in the product and distribution areas as well as in commodity markets. Additional requirements have also been introduced to unbundle the costs of services, notably with an obligation for investment firms to split out the cost of investment research from trade execution costs and do away with so-called inducements. This latter rule was criticized by many investors and issuers who claimed that it would increase the cost of research and reduce its availability, notably for SMEs. The impacts of this rule on SME-focused research are currently being further assessed by the EU Commission (EC).

Finally, MiFID II also introduces rules for the provision by third-country (TC) firms of investment services, following an equivalence decision, to professional clients and eligible counterparties, and for the access of TC CCPs and trading venues to the EU market. In addition it establishes non-discriminatory access rules to trading venues and to CCPs, aiming to allow investment firms to freely choose where to trade and clear their transactions for all financial instruments, provided that this would not threaten the viability of the CCPs and trading venues concerned, nor decrease the liquidity and stability of financial markets. The implementation of this latter requirement regarding exchange-traded derivatives has been delayed for several exchanges until July 2020. In addition, opinions are split on the impact that these rules may have on competition in the clearing space and on CCP standards. Some other measures will apply later due to the complexity of their implementation, such as the requirement to establish and operate a non-equity consolidated tape which will only apply from September 2019.

Much concern was expressed during the negotiation of the legislation regarding the burden of compliance and the related costs and complexity of the implementation of MiFID II and its potential impacts on market liquidity and market fragmentation. Some adjustments were made, but MiFID II rules now need to be assessed relatively to the benefits actually produced for investors and the EU market in general. Some market observers also argue that MiFID II thresholds may have to be recalibrated following Brexit. Without the volumes currently handled in the UK the range of liquid instruments qualified to be subject to current pre- and post-trade transparency measures and dark pool caps may significantly diminish, thus reducing the potential reach of MiFID II.

DAY 3 | 27 APRIL MORNING

11:00 to 11:45 | Sofia Room

Forthcoming unwinding of QE: expected impacts

Ultra-loose monetary conditions have contributed to economic growth but their persistence over a significant period of time can increase risks for the economy. In any case non-standard monetary policy measures cannot act as a substitute for structural reforms, which are needed in many EU countries to improve the business climate, raise output growth and reduce unemployment.

The objective of this conversation is to discuss the challenges posed by the progressive normalization of the ECB's monetary policy with speakers invited to assess the necessary elements of the policy mix along the way.

SPEAKERS

Chair

Vitas Vasiliauskas
Chairman of the Board, Bank of Lithuania

Public Authorities

Luis M. Linde
Governor, Banco de España

Yves Mersch
Member of the Executive Board, ECB

Luděk Niedermayer
MEP & Vice-Chair, ECON Committee, European Parliament

Luigi Federico Signorini
Deputy Governor and Member of the Governing Board, Banca d'Italia

Boris Vujčić
Governor, National Bank of Croatia

POINTS OF DISCUSSION

When and how will the ECB exit from its Quantitative Easing program (QE)? What toolbox will the ECB use to normalise its monetary policy? Is the objective of the ECB only to stop the assets purchase program or to reduce progressively its balance sheet and if so to what extent and over what period?

What impact may the unwinding of QE have on medium and long term interest rates? What are the consequences of an increase of long term interest rates on the fiscal solvency of the euro-zone countries and the solvency non-financial companies in the current context of high levels of public and private indebtedness? What precautions should be taken by the ECB in order to achieve a smooth QE exit?

The 2008 financial crisis witnessed unprecedented policy responses from the world's major central banks. Main central banks cut their policy rate to near 0%, exhausting the conventional monetary options. Then, to further ease financial conditions, they started to design a variety of unorthodox monetary policy tools commonly labeled as "unconventional monetary policies".

Quantitative easing has contributed to a revival of bank credit in the euro area

Since June 2014, the ECB has introduced a range of unconventional measures (negative interest rate on the deposit facility, asset purchase program of private and public sector securities, Targeted Longer-Term Refinancing Operations) alongside conventional ones, in pursuit of its price stability objective. Together, these measures have proved effective in preventing a period of disinflation from spiraling into one of severe deflation.

The easing of financing conditions has contributed to a revival of bank credit in the Eurozone and has supported domestic demand. The non-standard measures of the ECB have been particularly effective in counteracting bank funding and financial fragmentation in some jurisdictions. Indeed, the ECB decisively contributed to the rapid setting of a lower and more homogeneous interest rate pattern in the Eurozone. In such a context, whereas the outstanding bank credit to non-financial enterprises was reduced from 2012 to 2015, there has been an upward movement since 2015.

In addition, low interest rates have significantly supported public debt refinancing which has contributed to short-run political and economic stability in some countries. Furthermore, the lasting low interest rate environment has provided additional space for accommodative fiscal policy.

However, large scale monetary stimulus also comes with significant risks

Since loose monetary policy has stimulated risk-taking in financial markets, asset prices can quickly become disconnected from real economic developments. This can create imbalances, which might become unsustainable once monetary conditions are normalized. Furthermore, market discipline could be weakened by the abundant availability of liquidity. This can distort the risk compass of investors, contribute to a misallocation of resources and dangers of a higher propensity of bubbles and episodes of financial instability.

As Governor B. Vujčić summarized in 2017, " the most frequently outlined critiques of QE are excessive risk-taking, the possibility of fuelling asset bubbles, the creation of asset shortages, disincentives for governments to do structural reforms because of suppressed yoelds on government debt and the further build-up of debt".

Global indebtedness remains a major problem. According to Bank for International Settlements (BIS) data, total debt of the non-financial sector (that is households, government and nonfinancial corporations) amounted to $145 trillion in the first quarter of 2017, an increase of 40 percent since the first quarter of 2007. This big debt overhang represents a risk to the stability of the systems as monetary policy normalizes and a drag on long term growth.

Over the past years, we have learnt that a monetary policy approach that takes a neutral view on the possible formation of asset price bubbles, instead focusing more on picking up the pieces after bubbles burst can be very costly. Therefore, in such an environment, monetary policy should not only focus on inflation but also target financial stability.

Moreover, inflation is also influenced by long term structural factors (e.g. oil prices, supply constraints...). But it is not the primary job of monetary policymakers to repair the economy and bring about long-term growth. That is the job of parliaments and governments.

How to move forward?

The expansionary balance sheets policies are in fact much easier to introduce than to abolish. Normalization seems inevitable and is proceeding in the US. For a large part, normalization of interest rates is coming from the markets themselves. The normalization process should be different from a traditional cycle of interest rate hikes. Central banks currently have a very powerful presence in markets, owing to the implementation of unconventional policy tools. As a result, policymakers face the key challenge of designing a strategy for the withdrawal of the stimulus that does not unleash disruptive market movements.

Normalization raises a big issue in the Eurozone: the one of public debt and finance. Public debt remains very high at around 90% of GDP in the euro area. Some core countries of the euro area are still running substantial primary fiscal deficits. Therefore if and when monetary policy becomes less accommodative and interest rates rise, the cost of public financing of the Eurozone will feel strong pressure as well as a significant impact on budgetary outlays.

The time provided to European Governments by the massive fall in interest rates (that has reduced to a minimum the debt service burden of these States), has not been sufficiently used to start meaningful structural reforms that are needed to achieve the reduction of excessively high public expenditures and to revitalize the supply side. In essence, the ECB's understandable interventions in the government bond markets have pari passu weakened market pressure and discipline on governments.

Here is a paradox of European Monetary Policy:

- By easing financial costs it allows deficit countries to postpone structural reforms, buy time and borrow more...
- But this makes a change to "normal" monetary policy all the more problematic since the budgetary cost of tightening of monetary policy is significant.

This also raises the issue of the independence of Central Banks. Whilst they are, de facto, massively monetizing public debt (through public bond acquisitions programmes) they become, de facto, fiscal agents of Governments.

Setting aside ammunition for any future slowdown

If the world economy were to start decelerating, there would not be significant margins left to policy makers. Budgetary solvency, weakened by very high debt ratios, could be threatened by the deceleration of growth or/and/ by higher interest rates.

As for monetary conditions, they are still pretty loose. Interest rates are presently lower than growth rates. Therefore the margins for further loosening of monetary policy are extremely limited. It is odd to have uneven nominal negative interest rates up to 6 years in the Eurozone while the economy is improving; any margin to fight against recession has in fact disappeared.

Given the possibility of a slowdown of the advanced economies in the not too distant future, have policy makers sufficiently prepared for such a turnaround? Budgetary and monetary policies should normalize in good times in order to be able to provide countercyclical cushions when economic growth weakens.

11:45 to 12:30 | Sofia Room

Impact of Brexit on EU priorities in the financial sector

The objective of this session is to discuss the impacts that Brexit may have on the financing of the EU economy and on financial stability, given the options currently discussed for future EU-UK trade relationships, and whether the EU27 need to review their overall financial services objectives in light of these developments.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Jon Cunliffe
Deputy Governor, Financial Stability, Bank of England

Roberto Gualtieri
Chair, ECON Committee and Member of the Brexit Steering Group, European Parliament

Olivier Guersent
Director General, DG FISMA, European Commission

François Villeroy de Galhau
Governor, Banque de France

Joachim Wuermeling
Member of the Executive Board, Deutsche Bundesbank

Industry Representatives

Ian Jameson
Managing Director, General Counsel and Chief Legal Officer, EMEA, SMBC

Nigel Phipps
UK Country Manager and Managing Director of Government & Public Affairs, Moody's

POINTS OF DISCUSSION

What would be the likely short and longer impacts of a Brexit trade deal limited to an EU-UK FTA excluding financial services on the EU27 economy and on financial stability? How may possible issues be alleviated given current EU and UK redlines? To what extent would these impacts and issues be mostly transitional?

Does Brexit require further reviewing EU27 overall financial services objectives? Will the EU27 have to continue to depend on the UK for much of its financing post-Brexit? Can the Capital Markets Union and the Banking Union initiatives allow the EU27 to strengthen its financial markets and achieve greater financing autonomy or are changes needed in the ambition and effectiveness of these initiatives in the perspective of Brexit?

12:30 to 13:00 | Sofia Room

Closing remarks

SPEAKER

Mugur Isărescu
Governor, National Bank of Romania

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About EUROFI

The European Think Tank dedicated to Financial Services

- **A not-for-profit organization currently chaired by David Wright who succeeded Jacques de Larosière as Chairman in April 2016**
- **A platform for exchanges between the financial services industry and the public authorities addressing issues related to the evolution of financial regulation and supervision and the economic and monetary context impacting the EU financial sector**

MAIN ACTIVITIES

The main objectives of Eurofi are to help industry and public decision-makers reach a common understanding of possible evolutions required in the regulation and supervision of financial services and to open the way to legislative or industry-driven solutions that may enhance the safety and effectiveness of the EU financial sector and its contribution to economic growth.

Eurofi acts in a general interest perspective, facilitating exchanges of views between diverse financial industry players and the public authorities. These discussions are prepared by objective fact finding and issue analyses.

Eurofi has two main types of activities conducted by **Didier Cahen**, Secretary General of Eurofi, **Jean-Marie Andrès** and **Marc Truchet**, Senior Fellows:

Events and meetings:

- **Eurofi organizes annually two major international events (the High Level Seminar in March / April and the Financial Forum in September)** gathering industry leaders and EU and international public decision makers for discussions on the major on-going regulatory projects in the financial area and the role of the financial sector in fostering growth as well as the economic and monetary environment.
- These events are regularly organised in association with the EU Presidencies in parallel with informal ECOFIN councils and in some cases with the G20 Presidencies. They are organised with the support of **Virginie Denis** and her team.
- **Additional workshops** involving the members of Eurofi are set up to exchange views on regulatory issues. Bilateral meetings are also regularly organised with representatives of the public authorities and other stakeholders (e.g. end-users, experts) to fine-tune assessments and proposals.

Research and documentation:

- Assessments and proposals taking into account economic, risk and end-user impacts are prepared with the support of cross-sectoral working groups comprising members of Eurofi.
- Topics addressed include prospective and on-going regulatory proposals at the EU and global levels, industry trends as well as the impacts for the financial sector of the economic challenges the EU is facing.

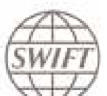
MAIN TOPICS CURRENTLY ADDRESSED

- **Measures and instruments needed to ensure an appropriate financing of the EU economy:** assessment of the economic challenges and of the impact of on-going monetary actions, measures to support bank financing (securitisation), diversification of the financing of SMEs and infrastructure projects, proposals for developing a long term investment perspective, climate change agenda;
- **Prospects of digitalisation and fintech:** digital transformation in the banking and insurance industries, fintech and blockchain applications in the capital markets and investment, related regulatory challenges;
- **Prospects of further EU integration:** implementation of the Banking Union, priorities for implementing a Capital Markets Union, possible evolution towards a fiscal union and further economic integration in the Eurozone, evolution of the EU regulatory and supervisory authorities (ESRB, ESAs);
- **Optimizing the EU financial services internal market:** payments, review of the IORP directive, regulation of CRAs, prospects of further banking integration and of digital banking;
- **Evolutions of the prudential and regulatory framework of banks and insurance companies:** fine-tuning and implementation of banking and insurance prudential frameworks, recovery and resolution of banks and non-banks, culture and conduct measures;
- **Capital markets and investment product regulations:** Capital Markets Union, regulation of securities, derivatives and commodities markets and infrastructures, recovery and resolution of CCPs, cybersecurity, SFT and collateral requirements, asset management regulations, investor protection regulation (PRIPs, MiFID, IMD…), regulation of shadow banking;
- **Financial regulation at the global level:** feasibility of bank crisis management at the global level, coordination of capital markets regulations at the global level, systemicity of non-banks non-insurers.

MEMBERSHIP OF EUROFI

Leading global and European financial institutions from different sectors of the industry

EUROFI MEMBERS



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