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Estonian Presidency of the Council of the European Union

The **Eurofi** Financial Forum **2017**

organised in association with the
Estonian EU Council Presidency

TALLINN | 13, 14 & 15 SEPTEMBER

PROGRAMME

What way forward for the EU27 and Eurozone?

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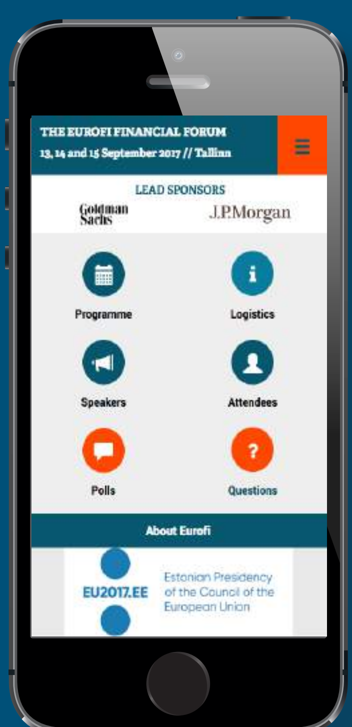

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Estonian Presidency of the Council of the European Union

The Eurofi Financial Forum 2017

TALLINN | 13, 14 & 15 September

PROGRAMME

DAY 1 | 13 SEPTEMBER AFTERNOON

MACRO-ECONOMIC AND POLITICAL CHALLENGES

Estonia Room	Tallinn Room
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14:00 to 14:30 Exchange of views: C. Clausen, M. Pradhan & D. Wright Outlook for the EU27 economy p.10	
14:30 to 15:35 Sustainable finance: EU and emerging market challenges p.12	**14:30 to 15:35** Improving financing prospects for EU infrastructure projects and mid-sized enterprises p.14
15:35 to 16:40 Accelerating the resolution of NPL challenges p.16	**15:35 to 16:40** Challenges raised by green finance and FSB disclosure guidelines p.18
COFFEE BREAK **Foyer**	
16:55 to 18:00 Developing Baltic / Eastern European capital markets in the context of the CMU p.20	**16:55 to 18:00** Longevity and ageing: Opportunities and challenges associated with the PEPP p.22
18:00 to 19:20 The economic, financial stability and trade implications of Brexit p.24	
19:20 to 20:15 Exchange of views: C. Bavagnoli, P. Bordenave, S. Bowen, W. Coen, R. Himino, F. Shirzad & D. Wright Efficiency of G20 financial reforms p.25	
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DAY 2 I 14 SEPTEMBER MORNING

DIVERSIFYING THE FINANCING OF THE EU ECONOMY

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09:10 to 10:20 CRD V / CRR II pending issues p.28	**09:10 to 10:20** Attracting retail investors to EU capital markets and PRIIPs / MiFID II pending issues p.30
COFFEE BREAK	**Foyer**
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11:35 to 12:45 Review of Solvency II p.36	**11:35 to 12:45** AML, KYC, data and competition challenges for digital banking p.38
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17:45 to 18:15 Exchange of views: S. Baker, O. Guersent, V. La Via , A. Magasiner & D. Wright Prospects of global policy coordination in the new political, economic and monetary context p.51	
18:15 to 18:50 Exchange of views: G. Bernardino, A. Enria, M. Ferber, S. Maijoor & D. Wright Review of the operations of the ESAs p.52	
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12:30 to 12:40 Closing remarks: S. Hanke Meeting the challenges of the Eurozone and the EU p.72	
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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 Tallinn Financial Forum and do not engage in any way the Estonian authorities or the speakers taking part in this forum.

DAY 1 | 13 SEPTEMBER AFTERNOON

13:30 to 13:45 | Estonia Room

Opening remarks

SPEAKERS

Welcome remarks

David Wright
President, EUROFI

Didier Cahen
Secretary General, EUROFI

Opening remarks

Ardo Hansson
Governor, National Bank of Estonia
and Member of the Governing Council, ECB

Raekoja plats, Tallinn

13:45 to 14:00

Estonia Room

Speech : **Update on US regulatory developments in capital markets**

SPEAKER

Kara M. Stein
Commissioner, U.S. SEC

DAY 1 I 13 SEPTEMBER AFTERNOON

14:00 to 14:30 | Estonia Room

Exchange of views: **Outlook for the EU27 economy** (macro-economic and investment opportunities and challenges)

SPEAKERS

Chair

David Wright
President, EUROFI

Discussants

Christian Clausen
Chairman for the Nordics, Senior Advisor, BlackRock Inc.

Mahmood Pradhan
Deputy Director, European Department, IMF

POINTS OF DISCUSSION

What are the prospects for fostering more economic growth in EU 27? What are the main challenges to address (raising interest rates, high level of indebtedness of certain Member States, weak productivity, lack of capital mobility, rigidities in certain labour markets, legacy issues...)? Are these issues appropriately addressed with ongoing initiatives? Are issues similar across EU 27 and do Nordic and Baltic countries face specific challenges?

What are the major threats that cross-border financial activities are currently facing e.g. rising protectionism (in the US and in Europe), regulatory fragmentation across national or regional lines...? What are the potential impacts for the financing of the EU economy (e.g. higher costs, reduced liquidity...)? How may these threats be alleviated?

What is needed to attract more foreign investment into Europe (e.g. increased economic performance across EU Member States, further integration of EU banking and financial markets, wider availability of data on EU businesses...)? Is there a risk that post Brexit cross border investment in EU 27 from outside Europe might diminish?

Europe is doing better politically and economically

On a political level, the nationalist movements and the divisions within our societies have not disappeared, but the populist wave that was threatening to submerge Europe has been contained.

With the Brexit, we are rediscovering that Europe is in reality an economic space with collective preferences. The problems facing British decision makers are highlighting the tangible benefits of Europe, which are so obvious that we used to take them for granted: the possibilities for studying or retiring wherever you wish, the freedom to do business free from controls. Brexit creates challenges but also provides an opportunity to advance the Capital Market Union. As one EU Member State leaves, others will need to pull closer together.

On the economic level, the economic expansion in the euro area seems increasingly resilient and has broadened across sectors and economies The ECB foresees annual real GDP increasing by 1,9% in 2017, by 1,8% in 2018 in the euro area.

Despite a firm cyclical recovery, the EU faces deep-rooted structural weaknesses and imbalances

The European Union still faces serious external and internal challenges: Massive increases in migration flows, the threat of terrorism on the one hand, demographic decline, weak levels of productivity gains and economic growth, high levels of indebtedness and unemployment, major economic discrepancies notably between France and Germany, the increasing fragmentation in the single banking market on the other hand.

Europe is facing an unprecedented demographic challenge and must be prepared to deal with the looming pension crisis

The decline in population (a reduction in fertility rates, an ageing in, population) which is greater than in the United States limits the potential growth of the European Union. In 2060, for every retired person there will only be two people of working age, compared to four today. Our social and welfare systems are already coming under pressure.

Weak levels of economic growth and levels of productivity are a major drag on the performance of the EU as a whole

Europe is trailing behind. Comparing the United States with the EU's best performer, Germany shows that:

- From 1998 to 2015, on a cumulative basis, productive investment in the US increased by 20 GDP points more than in Germany
- Between 1998 and 2015, per capita productivity gains increased by 40% in the US, compared with 10% in Germany
- Research and development spending levels are also higher in the United States (3% of GDP)

What are the factors behind this?

Businesses have more freedom to work and make profits in the United States than in Europe. Less regulation, more flexible markets, stronger competition, the facility of finding financing are key factors behind America's success. In addition, tax charges are higher in Europe than in the United States. Research and development spending levels are also higher in the United States (3% of GDP) than in Europe.

Faster progress on structural reforms is the most effective way to improve the business climate, raise productivity growth and reduce unemployment. In any case, developing ownership and incentivizing domestic reforms in particular to improve the business climate and increase the attractiveness of labour as a production factor remains a short run key priority.

The circulation of capital flows between Eurozone/EU countries has only been partly restored

The euro area has a savings surplus of more than €200 bn a year or over 2%of GDP and at the same time, suffers from an investment deficit. Northern Europe surplus savings are not feeding into the South. In other words, the situation is not satisfactory because the Eurozone's savings are financing investments in the rest of the world, whereas there is an investment shortfall in the euro area. The inability to find sufficient opportunities for investment projects in Europe should be both a cause for concern and a source of motivation for our leaders.

Some high debt countries may face rising sovereign spreads when monetary policy accommodation is reduced

Debt levels across the eurozone were 91.3 per cent in 2016. Public debt ratios are very high in many euro countries: France and Spain (at around 100 % of GDP), Italy (133% of GDP in 2016).

The exit of the ECB quantitative easing and the inevitable normalisation of long term interest rates will increase the debt service burden of EU Member States and could question the sustainability of the public debt of Member States notably those who do not have a primary fiscal surplus. These high debt ratios are also an impediment to the increase of growth potential in the relevant countries. High – debt countries should take advantage of the recovery and the remaining window of accommodative monetary policy to build buffers and reduce vulnerabilities.

Major economic and fiscal discrepancies notably between Germany and France

Political support for further European integration may be eroded by the lack of economic convergence. Indeed, the convergence trends between Members States of the euro area have proved partly illusory. A comparison between Germany and other EU countries such as France, Italy and Spain shows major economic and fiscal discrepancies that need to be addressed for achieving stronger growth in these countries and restoring trust between Member States. Indeed the rules of the Stability and Growth Pact have not been enforced sufficiently vigorously and many euro-area countries face deep-rooted structural weaknesses and imbalances.

To stabilize and deepen the Monetary Union, it is essential that France in particular should overcome its economic weaknesses in particular compared with Germany. The main issue is the level of public expenditure which amounts to 57% of GDP in 2016. In France compared to the average level of the euro zone (49% in 2016). This is why France urgently needs to rebalance its public accounts in order to reduce the excessive level of tax and contributions which are detrimental to the competitiveness of French companies.

A well-functionning monetary union requires a credible and sustainable fiscal framework: the euro area fiscal rules need to be more binding, less complex, predictable and effective. The symmetry of economic adjustments within the euro area should also be a priority focus. Germany's considerable trade surplus is not sustainable within a balanced monetary area. Within a monetary union, there must be a symmetrical adjustment mechanism to prevent long-run excessive balance of payment surpluses or deficits.

Fragmentation in the single banking market has increased despite the implementation of the Banking Union three years ago

EU cross-border groups do not operate in a single market. Cross border operations in the banking sector have declined, and are still declining. The lack of single-jurisdiction status penalizes banks operating across the Eurozone and impedes greater risk diversification and cross-border consolidation. Lastly progress on reducing non-performing loans has been slow in some countries even if recent supervisory actions and the adoption of an action plan by the Ecofin Council are encouraging.

DAY 1 | 13 SEPTEMBER AFTERNOON

14:30 to 15:35 Estonia Room

Sustainable finance: EU and emerging market challenges

The objective of the session is to discuss the content and the preliminary recommendations of the HLEG interim report and clarify its effective consequences on the ability of the financial sector to fully contribute to sustainable policy objectives.

SPEAKERS

Chair

Pervenche Berès
MEP, ECON Committee, European Parliament

Public Authorities

Alain Godard
Director General, Chief Risk Officer, EIB

Artur Runge-Metzger
Director, Climate strategy, Governance and Emissions from Non-trading Sectors, DG CLIMA, European Commission

Lakshmi Shyam-Sunder
Vice President & Chief Risk Officer, World Bank Group

Thomas Verheye
Head of Unit, Sustainable Development Goals, Green Finance and Economic Analysis, DG ENV, European Commission

Industry Representatives

Stewart James
Managing Director and Deputy Head, Group Public Affairs, HSBC

Alexandra Richers
Managing Director, DekaBank Deutsche Girozentrale

Frédéric Samama
Deputy Global Head of Institutional Clients, Amundi

Expert

Christian Thimann
Director of the AXA Research Fund & Chairman of the EU High-level Expert Group on Sustainable Finance

POINTS OF DISCUSSION

What are the more compelling findings and propositions featuring the interim HLEG report? Which of them should get market support? What are the main possible issues raised by the report?

How to better embed the assessment and management of the long-term risk related to climate change in the day to day operation of both corporations and financial players? How to develop the relevant culture and the necessary monitoring tools inside firms?

What should be the role of public authorities: delivering a forward-looking policy framework supporting sustainable finance (including on carbon pricing through the very needed ETS reform) and monitoring the development of sustainable finance?

Is there a need for a European regulation on green and sustainable finance on issues like classification, labels, fiduciary duty, disclosures, etc.? Is there a risk that such a European regulation triggers market fragmentation in the global context?

What are the challenges specific to the risk and financing of circular economy? How to further insert circular economy (eco design, sustainable production and consumption, recycling) in the framework of green and sustainable finance?

BACKGROUND PREPARED BY EUROFI

In December 2016, the European Commission appointed the HLEG under the chairmanship of Christian Thimann, who is also the Vice-Chair of the Financial Stability Board (FSB) Disclosure task-force. The mandate of this group is to provide, by the end of 2017, recommendations for a comprehensive EU strategy on sustainable finance as part of the Capital Markets Union.

The HLEG is composed of representatives of the financial sector (banks, insurers, asset-managers, stock exchanges, market practitioners), NGOs and academic experts in environmental matters; its secretariat is provided by the Commission. Observers from a number of European and international institutions contributing to the development of sustainable finance have also been invited.

The HLEG published an interim report in July 2017 with a first set of recommendations and preliminary views of various issues.

The 8 recommendations are:

1. The creation of a classification system for sustainable assets that captures all acceptable definitions of "sustainable"; such a designation will initially be limited focus on climate change matters given the considerable progress in this area;
2. The creation of a European standard and label for green bonds and other sustainable assets and funds;
3. The inclusion of sustainability in fiduciary duties: "the responsibility of directors and investors to manage long-term sustainability risks should be enshrined in their relevant duties, whether it is through fiduciary duty in common law or its equivalent in other legal systems"
4. The definition of dedicated disclosures : " investors should provide forward-looking analysis on how their portfolios are aligned with the energy and environmental transition, potentially via mechanisms comparable to France's recent Energy transition law, article 173"; "the revision of the Non-financial reporting directive in 2018 represents an opportunity"; "the disclosure rules should be principle-based and leave room for flexibility and innovation through four key elements : governance, strategy, risk-management and metrics and targets";
5. The introduction of a sustainability test regarding EU financial legislation to ensure that sustainability is embedded across all future EU financial regulations and policies;
6. The creation of a "Sustainable Infrastructure Europe", a dedicated advisory and "match-making" facility between public authorities (including municipalities) and private investors, which could be housed in the EIB (the European Investment Advisory Hub being was judged too small given the number of potential investment projects across the EU);
7. The positioning of the European supervisory agencies on sustainability risk; "the current review of the ESA operations provides an excellent opportunity to clarify and enhance their role in assessing ESG-related risks… even without changing their current mandate".
8. The definition of Public sector accounting standards for energy efficiency: "Eurostat's interpretation of public sector accounting standards in energy efficiency needs to be improved.

In addition to these policy recommendations, the HLEG is working on other policy areas which require further analysis and discussion, like:

- The early definition - by 2018 - of the EU's 2030 and 2050 climate and energy goals;
- The improvement of the governance of financial institutions on sustainability matters;
- The integration of sustainability in ratings;
- A more effective integration of sustainability in accounting standards;
- The improvement of sustainability benchmarks;
- The possible role of green-supporting factors or brown-penalizing factors for banks;
- The possible evolutions of Solvency II regulatory framework for insurance companies;
- Ways and means to develop the "pipeline of sustainable projects for investment".

The report and its recommendations are submitted to consultation until September.

DAY 1 I 13 SEPTEMBER AFTERNOON

14:30 to 15:35 | **Tallinn Room**

Improving financing prospects for EU infrastructure projects and mid-sized enterprises

The session is intended to describe the current financing challenges faced by infrastructure projects and SMEs in the EU, clarify the variety of needs to be addressed, and outline the possible improvements required by the many initiatives launched in the recent years by EU public authorities to better finance the EU economy and achieve a sustainable growth.

SPEAKERS

Chair

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

Public Authorities

Nathalie Berger
Head of Insurance and Pensions Unit, DG FISMA, European Commission

Carmine Di Noia
Commissioner, CONSOB

Industry Representatives

James Chew
Global Head of Regulatory Policy, HSBC Holdings plc

Xavier Larnaudie-Eiffel
Deputy General Manager, CNP Assurances

Michael Wilkins
Managing Director, Global Infrastructure Ratings, S&P Global Ratings

Laurent Zylberberg
Senior Executive Vice President, Public Affairs and International Relations, CDC & President, ELTI

Expert

Jean-Jacques Bonnaud
Director and Treasurer, EUROFI & Vice-President of a Cluster in Toulon

POINTS OF DISCUSSION

What are the current financing challenges faced by infrastructure projects and SMEs in the different EU Member States?

What are the various financial needs of SMEs of different sizes (e.g. seed capital, private equity, capital development...)?

Are there emerging sufficient alternative sources of financing for SMEs and infrastructure projects?

Investment needs remain huge in the EU

The survey completed in April 2017 by the EIB, points to a strong investment focus of EU firms on replacement investment. This corresponds to the existing investment gaps regarding the quality of the capital stock of EU firms. Indeed, firms report that only 44% of their machinery and equipment can be considered state-of-the art, and that only 40% of their building stock satisfies high energy efficiency standards. Conversely investment in new capacity is still held back by relatively low levels of capacity utilisation.

The survey stresses that uncertainty (69% of firms) and lack of skilled staff (67%) stand out as the main longer term barriers to investment. Access to finance is improving, it stands at the 6th place (43%) after labour market regulation and high energy costs (52% and 48%, respectively).

Further improving the financing of investments remains however essential

Indeed, there are still segments of firms heavily dependent on external funding, and which have trouble obtaining it. This applies in particular in countries which have experienced economic downswing, and to smaller or young or innovative firms.

In addition, while larger firms are able to use a wide range of financial tools, smaller firms are generally using internal financing and short term debt, which provides flexibility and requires less collateral. Furthermore, owner-managed companies are reluctant to associate external parties with their capital, and consequently favour debt over equity.

Finally, although innovation and future growth are closely related to the financing of SMEs, due to the greater risk of high-growth, innovative firms, banks are more reluctant to finance them. Achieving an effective re-balancing of the financing mix of firms towards more market-based sources, is proving as essential as challenging and requires the provision of strong incentives.

Looking beyond SMEs, one accepted explanation for growth slowly recovering since the double dip recession, is low investment. Before 2008, gross fixed capital formation in GDP as a share of GDP was around 20%. It then declined to 17% in 2013, representing an EU annual investment gap between 2 and 3% of GDP or around €300bn/annum.

However relaunching investment also requires taking into account that in many Member States although households have accumulated savings, the private sector and government have accumulated high levels of debt and have now to deleverage.

Various initiatives have been taken at the EU level to improve the investment in the EU

The Investment Plan for Europe (IPE), which aims to encourage investments meeting EU long-term economic needs, focuses on the mobilisation of private sources of funding (leveraging €21bn public funds), the creation of an investor friendly environment (through technical assistance in particular) and comprehensive information on project investment opportunities in the EU (project pipeline). The objectives of the IPE have recently been enhanced in order to mobilise up to €630bn in 2022.

Investment vehicles channelling savings toward investment have been or will be launched: European Long Term Investment Fund targeting unlisted companies, debt instruments for which a buyer cannot be easily identified, real assets that require significant initial investment, small and medium sized enterprises (SMEs), and the Pan European Pension Fund a voluntary personal pension label designed to give savers more choice. They should all help to channel more savings into long-term investments in the EU.

Financial institutions have also benefited from significant regulation reliefs. The Solvency 2 delegated regulation was amended to remove barriers to investment in the EU and to channelling capital into infrastructure and long-term sustainable projects. Qualifying infrastructure investments will now form a distinct asset category and benefit from a lower risk calibration. The Commission also proposed to include a new category (“infrastructure corporates”) in the assets that can benefit from a lower risk calibration, as will also European Long-Term Investment Funds (ELTIFs).

Supporting factors (i.e. targeted reductions of regulatory capital charges) have been introduced to alleviate SME and infrastructure bank financing capital charges. A framework defining Simple Transparent and Standard securitisations is being agreed upon, which should facilitate the off-loading of bank balance sheets and consequently ease the financing by banks.

A profound evolution of the financial landscape is underway

Finally, a profound evolution of the financial landscape is underway, which is expected to reduce the role of banks and further involve Insurance undertakings, Investment and pension funds. The Commission is indeed seeking deeper and more integrated capital markets in the EU to provide businesses with a greater choice of funding at a lower cost and offer new opportunities for savers and investors notably in a context where a reduction of the involvement of banks in the financing of the economy is still considered as necessary in order to make the financial system more resilient.

However, this partial withdrawal of banks raises the concern that smaller enterprises and infrastructure project sponsors, will find it difficult to have access to new funding sources the demands of which are of a different kind (higher amount, specific maturities, greater level of remuneration, additional transparency, etc.). In this context EU and National Promotional Banks will play an increasing role in identifying financing needs throughout the EU and in contributing to supplying effectively bankable projects and investments.

DAY 1 I 13 SEPTEMBER AFTERNOON

15:35 to 16:40

Estonia Room

Accelerating the resolution of NPL challenges

Nine years after the start of Europe's financial crisis, the legacy of the high stock of non-performing loans (NPLs) on the balance sheets of some EU banks continues to be an important cause of concern for policymakers. Although high NPL ratios only affect a number of EU countries, the problem of persistent high NPL ratios is an issue for Europe because they pose system-wide risks of spill-overs to other EU countries, can generate negative externalities, and undermine common efforts to achieve sustainable growth.

The objective of this session is to assess whether the recent the SSM guidance to banks on Non- Performing Loans and the conclusions of the Ecofin Council on 11 July 2017 to tackle this issue are sufficient to accelerate the NPL resolution. Speakers will also be invited to propose, if needed, EU additional measures to cope with the situation.

SPEAKERS

Chair

Corso Bavagnoli
Assistant Secretary, Financial Department of the French Treasury, Ministry of Economy and Finance, France

Public Authorities

Paolo Fioretti
Deputy Head of Banking, ESM

Piers Haben
Director, Oversight Department, EBA

Elke König
Chair, SRB

Giuseppe Siani
Deputy Director General, DG Micro-Prudential Supervision IV, ECB

Industry Representatives

Michael Dryden
Managing Director, Global Head of SP Finance, Credit Suisse Group

Francesco Giordano
Chief Operating Officer, UniCredit S.p.A.

Laurent Lascols
Group Head of Public Affairs, Société Générale

Jonathan Trup
Managing Director, Morgan Stanley

POINTS OF DISCUSSION

How to encourage banks with high levels of NPLs to define and implement ambitious and realistic NPL strategies?

What are the key impediments for improving the functioning of secondary markets for NPLs such as poor quality data, inefficient and costly recovery processes and judicial capacity constraints?

The Non-Performing Loans (NPL) issue is, given its persistence and magnitude, a matter of concern for the EU as a whole, as it could give rise to financial stability risks, possibly spilling-over cross border, and undermine common efforts to achieve sustainable growth.

High levels of NPLs lower the profitability and threaten the solvency of the banks concerned. They also impair the lending channel and therefore impact on the transmission of monetary policy. Such high levels of NPLs are one of the major roadblock on the road towards the completion of the Banking Union and further public risk sharing.

Resolving the NPL problem requires a broad strategy and a wide range of actions

A recent report of the ESRB stressed that there are three main types of impediments to the resolution of NPLs relating to the supply side (banks), demand side (prospective investors) and to structural issues (all stakeholders).

Supply-side issues are related to weak incentives to dispose of NPLs owing to low opportunity cost, partly induced by accounting rules, tax issues, and to a coordination issue giving rise to a first-mover disadvantage and to current capital constraints.

Demand for NPLs is inhibited, inter alia, by the lack of a deep and liquid secondary market for impaired assets and the remaining structural impediments that widen the gap between bid and ask prices.

Structural rigidities, such as inefficient, lengthy and costly debt recovery processes affect both sides of the market, creating a deadweight cost.

The SSM has issued in March 2017 guidance to improve bank capabilities in working out NPLs

The guidance is a non-binding instrument; however, deviations should be explained by banks and substantiated upon supervisory request. The guidance will serve the supervisor as a basis for evaluating banks' handling of NPLs, as part of the regular supervisory dialogue and in the case of non-compliance, may trigger supervisory measures, including adjusting the pillar 2 requirement of the bank. It is said to be qualitative at this stage, as the supervisor does not set out quantitative requirements in the guidance on targets for NPL disposals, provisioning requirements or haircuts on collateral valuations.

The guidance provides notably short-term and long-term options on viable forbearance solutions with the aim of returning the exposure to a situation of sustainable repayment following an affordability assessment for the borrower, thus avoiding "extend and pretend" arrangements. It guides banks on how to measure impairment and write-offs in line with international recommendations.

The ECOFIN Council has recently invited the Commission to develop, by summer 2018, European approach to foster the development of secondary markets for NPLs, in particular to remove impediments to the transfer of NPLs by banks to non-banks and to their ownership by non-banks, while safeguarding consumers' rights, as well as to simplify and potentially harmonise the licensing requirements for third-party loan servicers and to take legislative initiative in this respect, as appropriate.

The ECOFIN Council has also asked the EBA, the ECB and the Commission, to propose by the end of 2017, initiatives to strengthen the data infrastructure with uniform and standardised data for NPLs and consider the setting-up of NPL transaction platforms in order to stimulate the development of this secondary market.

The ECOFIN Council has also asked the Commission to develop, by the end of 2017, a "blueprint" for the potential set-up of national asset management companies (AMCs)

This blueprint will be established in cooperation with all relevant institutions and bodies and taking into account successful national experiences so far, which would set out common principles for the relevant asset and participation perimeters, asset-size thresholds, asset valuation rules, appropriate capital structures, the governance and operational features, both private and public.

Asset management companies (AMCs) may aid in correcting the market failure. They can swiftly clean up NPLs from bank balance sheets, and resolve them over a longer period of time. Acquisition of assets at their long-term economic value, instead of market value which is depressed by low liquidity and high uncertainty, minimises fire sale losses. Sweden, Germany, Ireland, Spain, Slovenia and Korea, for example, used these tools to manage their banking crises, often with a focus on loans backed by real estate. There is one common feature in this type of AMC: state support. By putting capital and funding guarantees at stake, governments can signal their commitment to the structural reforms and bring forward the related benefits. A similar role may be played by securitisation schemes.

DAY 1 | 13 SEPTEMBER AFTERNOON

15:35 to 16:40

Tallinn Room

Challenges raised by green finance and FSB disclosure guidelines

The session is intended to take stock at the EU level, of issues raised by the financing of a more sustainable economy and the assessment of related risk and opportunities, in the context of two essential EU and Global frameworks i.e. the Green Bond Principles and the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

SPEAKERS

Chair

Jonathan Taylor
Vice-President, EIB

Public Authority

Thomas Verheye
Head of Unit, Sustainable Development Goals, Green Finance and Economic Analysis, DG ENV, European Commission

Industry Representatives

Michael Leinwand
Chief Investment Officer, Zurich Group Germany
Michel Madelain
Vice Chairman, Moody's Investors Service

Expert

Christian Thimann
Director of the AXA Research Fund & Vice-Chairman, FSB Taskforce on Climate-Related Financial Disclosures

POINTS OF DISCUSSION

What is the contribution of the green bond market so far, to financing the transition toward a more sustainable economy and the main obstacles it faces in order to fully support the financial needs required by green policies in the EU notably?

What is the role and policy of the EIB? What should be the role of credit rating agencies in contributing to a clearer picture of financial risks related to the transition to a low carbon sustainable economy and more generally to the enhancement of a sustainable finance?

What are the challenges posed to the financial sector by the current climate-related transition notably regarding the assessment of related risks and opportunities? What is the expected contribution of the climate-related recommendations of the FSB? What EU policy initiatives should be launched in order to fully reap the expected benefits of these recommendations?

What are the priorities / necessary initiatives in the EU regarding green bond markets and the information and disclosures needed to contribute to the further support of the Sustainable Development Goals and the Paris Agreement in the EU?

Facilitating the financing of the transition towards a more sustainable economy is challenging

Indeed, investors, lenders, insurers and project sponsors need useful and understandable information notably regarding climate-related issues, in order to make informed capital allocations and financial decisions, while regulators need to understand the risks that may be building up in the financial system.

Eventually, this information will make it easier to have access to capital by increasing investors' and lenders' confidence, and extending the awareness and understanding of climate-related risks and opportunities within companies and among market participants.

This information to be effective and useful, has to constitute a real common language in order to facilitate decision making, streamline negotiation and transactions, and build a holistic view of climate-related issues.

Mainstreaming an effective common language

Such an effort requires notably defining systematic and standardised information regarding the financial impact of climate-related risks and opportunities on a given organisation, and the environmental impact of a given investment that an organisation is planning.

These are the respective objectives of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Green bond principles. The two related challenges faced by both initiatives, are to define an appropriate common language and to eventually mainstream it.

The Task Force on Climate-related Financial Disclosures issued in June its recommendations.

It proposed a set of disclosures on four areas: governance of climate-related risks and opportunities; actual and potential strategic business and financial impacts of climate-related risks and opportunities; processes used to identify, assess, and manage climate-related risks; the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The next step it proposes, is to define the appropriate timeframe that can successfully mainstream these disclosures. The approach envisaged is to reduce progressively the size of the corporates providing disclosures within their financial statements and filings, and to refine progressively the accuracy of the descriptions of issues specific to each of them, until these descriptions encompass the relevant metrics and anticipated impacts of the climate-related scenarios defined by the Task Force.

The final features of the mainstreaming timeframe are a holistic view of the concentration of carbon-related assets, as well as a mapping of the exposure of the financial sector to climate-related risks.

Green bond principles are essential to provide the necessary transparency to investors

Similarly, the Green Bond Markets (GBM) which are intended to finance not only a climate-related transition but more generally the investments required to achieve a more sustainable economy, are underpinned by Green Bond Principles (GBP), the role of which is to enable an adequate evaluation of the environmental impact of the projects financed, on the basis of common standards. By providing transparency at the level of each project financed, the green bond approach is complementary to the TCFD one, which is entity-based.

Green Bond Principles are voluntary process guidelines that enhance transparency and disclosures on environmental aspects, i.e. they help to define what is green and avoid the so called green washing. They help one in particular to refocus from a short-term consideration related to investment opportunities, toward their long-term sustainability risks and opportunities.

The challenge there, is again to mainstream such principles and standards. Indeed, Green Bond Markets need a massive increase. Today, although the development of the Green Bond Market among some sovereign issuers (France and Poland), currently green bonds represent less than 1% of total world bonds . Thus the Green bond market at this stage does not yet give full access to all the benefits expected from effectively efficient markets e. g. sustainability and cost efficiency of the asset class, optimal risk assessment, benchmarking…

The proposals of the HLEG regarding sustainable finance

According to the interim report of the EU High Level Expert Group on sustainable finance, to achieve such large scale effects in the EU, stock exchanges need to be further involved and the creation of green financial centres should be envisaged, which "have a key role to play in promoting the growth of sustainable finance and the disclosure of material information related to sustainability. They can also support the integrity and growth of the green bond market by encouraging the development and application of robust standards."

There the report goes further by stating that "many initiatives have moved from an initial focus on stock markets and green bonds to a more systematic approach focused on developing an ecosystem of products, services and expertise around sustainable finance." This raises also the question of the expected role notably of public EU and domestic banks, rating agencies, etc.

More generally, the interim report stresses the need of an "EU system of classification of financial products that captures all acceptable definitions of 'sustainable', taking into account existing principles established such as Green bond principles".

Furthermore, it highlights the fact that "trust in the market for sustainable financial products" requires also defining "credible EU labels and quality standards", a need that is reflected in the initiatives taken by some member states (TEEC in France…), which might go beyond the Green Bond approach, by possibly proposing to qualify, compare, etc. the relative added value of projects in terms of sustainability, in addition to the transparency provided by Green Bond principles.

Furthermore, it highlights the fact that "trust in the market for sustainable financial products" requires also defining "credible EU labels and quality standards", a need that is reflected in the initiatives taken by some member states (TEEC in France…), which might go beyond the Green Bond approach, by possibly proposing to qualify, compare, etc. the relative added value of projects in terms of sustainability, in addition to the transparency provided by Green Bond principles.

The possible need for labels and quality standards to be defined at the EU level, illustrates the fact that at this stage one appropriate issue is whether market-led initiatives would be sufficient to bring green financings to the level of development required or whether public action is required. Part of the reflexion concerns in consequence the expected role of respectively EU regulatory and market-led standard setting initiatives. These issues require political clarification and options.

DAY 1 | 13 SEPTEMBER AFTERNOON

16:55 to 18:00 **Estonia Room**

Developing Baltic / Eastern European capital markets in the context of the CMU

This roundtable will discuss the importance for the Baltic and Central Eastern European (CEE) economies of developing capital markets, the related opportunities and challenges and the impacts that are expected from the Capital Markets Union action plan in these markets. The on-going changes in the region's post-trade environment following the implementation of Target2Securities (T2S) and their expected impacts will also be addressed.

SPEAKERS

Chair

Vitas Vasiliauskas
Chairman of the Board, Bank of Lithuania

Public Authorities

Peter Palus
Head of the Financial Unit, EFC Member,
Permanent Representation of the Slovak Republic to EU

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

Mahmood Pradhan
Deputy Director, European Department, IMF

Kristjan-Erik Suurväli
Head of Market Supervision and Enforcement Division,
Estonian Financial Supervision Authority

Industry Representatives

Robert Kitt
Head, Swedbank, Estonia

Armita Saladžienė
Vice President, Head of Securities Services, Nasdaq

POINTS OF DISCUSSION

What are the main opportunities and challenges regarding the development of capital markets in the Baltic and CEE regions? What are the current trends and future prospects? What is the expected impact of Brexit on the financing of the Baltic and CEE regions?

What is the expected impact of MiFID II and the CMU in the Baltic and CEE regions? Do CMU and MiFID II measures cover the main financing needs expressed by different enterprises in the region? What additional measures might be needed?

Is there an appropriate balance in the CMU between actions to support domestic or regional market ecosystems and those fostering EU level integration? What should come first?

How is the post-trading environment changing in the region with the roll-out of Target2Securities? What are the benefits expected? Are there any issues remaining to be tackled?

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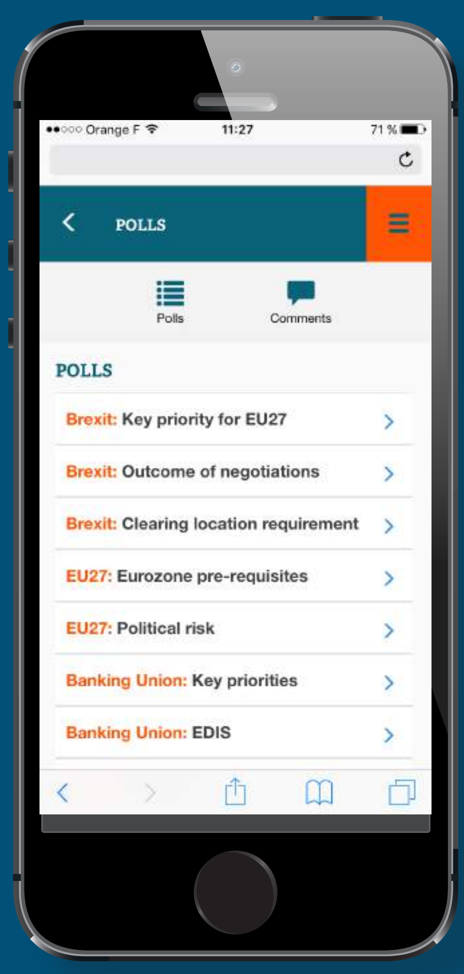
ANSWER POLLS

POST QUESTIONS DURING THE SESSIONS



16:55 to 18:00 | Tallinn Room

Longevity and ageing: opportunities and challenges associated with the PEPP

On 29 June 2017, the EU Commission set out a legislative proposal for a pan-European Pension Product (PEPP), a simple and cost-effective retirement plan which will be portable across EU Member States. The PEPP is designed to give hundreds of millions of savers in the EU more choice in the fragmented and uneven European market, where options are nearly non-existent in some Member States. But it should also create new opportunities for providers to tap into a European-wide single market for personal pensions estimated to grow to €2.1tn over the next decade.

PEPP would complement existing state-based, occupational and national personal pensions, but not replace or harmonise national personal pension regimes. The EU Commission has recommended that Member States should grant the same tax treatment to PEPP as is currently granted to similar existing national products.

The objective of this session is to discuss the key issues and success factors for introducing such a PEPP. Speakers will be invited to explain in particular the attractiveness of the PEPP compared to domestic personal pension products and the challenges that this legislative proposal presents in terms of distribution, coexistence with national schemes, level playing field etc.

SPEAKERS

Chair

Gabriel Bernardino
Chairman, EIOPA

Public Authorities

Nathalie Berger
Head of Insurance and Pensions Unit, DG FISMA, European Commission

Willem Evers
Head of Department, General Policy Department, Supervisory Policy Division, De Nederlandsche Bank

Ambrogio Rinaldi
Central Director, COVIP

Industry Representatives

Paolo Federici
Managing Director, Head of Northern Europe, Fidelity International

Xavier Larnaudie-Eiffel
Deputy General Manager, CNP Assurances

Expert

Guillaume Prache
Managing Director, Better Finance

POINTS OF DISCUSSION

What are the objectives of the PEPP initiative and the related opportunities and challenges?

How to ensure that PEPP will encourage citizens to increase their savings for retirement and foster the development of personal pensions across borders and long term investment in Europe?

The Pan European Personal Pension Product (PEPP) is a voluntary personal pension scheme that will offer consumers a new pan-European option to save for retirement. PEPP will have several features inspired by existing pension products:

- For example, PEPP will be a simple product for savers, with only up to 5 investment strategies.
- It will include a default, low-risk investment option under which savers recoup at least the capital saved, and strong rules on risk mitigation.
- It will cap the costs of switching from one provider to another.
- It will be a transparent product, with mandatory information on fees and the performance of the investment. The cornerstone of providing pre-contractual information is the PEPP key information document. Its form, content and conditions of provision are described in detail in the proposed Regulation.
- And it will be flexible, offering the possibility to change investment strategy every 5 years and choosing how benefits are paid out.

All these features will be harmonised at the EU level, and providers will only need one product authorisation to offer a PEPP across the EU. The authorisation to act as a PEPP provider will be granted by a single authority, EIOPA. EIOPA will be in charge of authorising PEPPs and maintaining a central register for PEPPs across the EU. National Supervisory Authorities will remain in charge of supervising PEPP providers. In order to ensure high quality standards for the PEPP label, EIOPA is empowered to withdraw public authorisation in case a provider no longer matches PEPP requirements.

Reasons for and objectives of the EU Proposal of the EU Commission

Europe is facing an unprecedented demographic challenge. In 2060, for every retired person there will only be two people of working age, compared to four today. Our social and welfare systems are already coming under pressure. That is why it is urgently needed to bridge the pension gap created by our ageing population.

Alongside occupational pensions, personal pension plans are part of the solution to supplement state-based pensions. But today they are underused: only 27% of Europeans between 25 and 59 years of age save towards a private pension .

This is linked to the underdevelopment of the personal pensions market. The legislative proposal of the EU Commission aims to address this situation by contributing to a European market for personal pensions and encouraging competition between providers of the benefits of consumers.

A more developed market for personal pensions in the EU is also expected to channel more savings into long-term investment and increase the depth, liquidity and efficiency of capital markets.

Key benefits for savers and providers

The PEPP will allow consumers to voluntarily complement their savings for retirement, while benefitting from solid consumer protection:

- PEPP savers will have more choice from a wide range of PEPP providers and benefit from greater competition.
- Consumers will benefit from strong information requirements and distribution rules, also online. Sectorial distribution rules will apply for IDD and MIFID firms, specific rules will apply for other firms.
- The PEPP will grant savers a high level of consumer protection under a simple default investment option with mandatory risk mitigating techniques, under which savers recoup at least the capital saved.
- Savers will have the right to switch providers – both domestically and cross-border - at a capped cost every five years.
- The PEPP will be portable between Member States, i.e. PEPP savers will be able to continue contributing to their PEPP when moving to another Member State.
- PEPP providers will be able to offer different types of pay-out options- annuities, lump sums, a combination of both, or regular withdrawals. PEPP savers will have the possibility to change their preferred option once every five years under their PEPP scheme, in order to benefit from sufficient flexibility.

The regulatory framework that the Commission is proposing today will create opportunities for a wide range of providers (banks, insurers, asset managers, occupational pension funds, investment firms) to be active on the personal pension market:

- Providers will be able to develop PEPPs across several Member States, to pool assets more effectively and to achieve economies of scale.
- PEPP providers will be able to reach out to consumers across the whole EU through electronic distribution channels. A network of branches would not be required, allowing easier market access.
- PEPP providers and savers will have different options for payments when the product reaches the end of its lifetime.
- PEPP providers will benefit from an EU passport to facilitate cross-border distribution.
- The proposed Regulation includes the possibility for PEPP providers to cover the risk of death and other biometric risks. But accumulation conditions, biometric coverage and decumulation conditions are not harmonised in the proposed regulation in order to preserve flexibility and so that providers can adapt to national laws and criteria for tax relief.

The proposal for the PEPP Regulation is accompanied by a Commission Recommendation on the tax treatment of personal pension products, including the PEPP. The Commission encourages Member States to grant the same tax treatment to PEPPs as is currently granted to similar existing national products, even if the PEPP does not fully match the national criteria for tax relief. Member States are also invited to exchange best practices regarding the taxation of their current personal pension products and this should foster a convergence of tax regimes.

DAY 1 I 13 SEPTEMBER AFTERNOON

18:10 to 19:20 **Estonia Room**

The economic, financial stability and trade implications of Brexit

The objective of this roundtable is to discuss the economic, financial stability and trade implications of Brexit for the EU economy and for the EU financial sector, given the latest developments of the negotiations and how potential negative impacts of Brexit for the EU27 may be mitigated in the short and medium term.

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

Industry Representatives

Laura Ahto
Chief Executive Officer, BNY Mellon's European Bank

Joe Cassidy
Partner, KPMG UK

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

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

Dermot McDonogh
Chief Executive Officer, Goldman Sachs International and Chief Operating Officer for Goldman Sachs EMEA

Shriti Vadera
Chairman, Santander UK

Expert

Christian Noyer
Honorary Governor, Banque de France

POINTS OF DISCUSSION

What are the main options for EU-UK trade and financial services relationships post-Brexit given the latest state of the negotiations? Is a soft Brexit still possible and what would it contain?

What are the potential implications of a hard Brexit for the financing of the EU27 economy and for its financial sector? How is the situation likely to develop in the longer term with a hard Brexit? How may the negative consequences for the EU27 of a hard Brexit be alleviated in the short and longer term? Is a transition / implementation period essential in this regard to ensure business continuity?

What are the main implications of Brexit from a financial stability perspective and how may they be addressed?

19:20 to 20:15 | Estonia Room

Exchange of views: **Efficiency of G20 financial reforms**

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.

The reforms are built on the four pillars of: making financial institutions more resilient; ending the problem of financial institutions being too-big-to-fail; making over-the-counter (OTC) derivatives markets safer; and transforming shadow banking into resilient market-based finance. Timely and consistent implementation of these reforms is essential to achieve sustainable growth.

The objective of this exchange of views is to assess whether the G20 financial reforms are achieving their intended outcomes, identify any unintended consequences that need to be addressed and identify improvement areas related to the definition and calibration of G20 requirements.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Corso Bavagnoli
Assistant Secretary, Financial Department of the French Treasury, Ministry of Economy and Finance, France

Sharon Bowen
Commissioner, U.S. CFTC

William Coen
Secretary General, BCBS

Ryozo Himino
Vice Minister for International Affairs, FSA, Japan

Industry Representatives

Philippe Bordenave
Chief Operating Officer, BNP Paribas

Faryar Shirzad
Managing Director, Goldman Sachs International

POINTS OF DISCUSSION

Do the Basel frameworks (capital, liquidity, leverage standards) make banks sufficiently resilient and appropriately answer the needs of consumers, businesses and market participants?

Has sufficient progress been made at the global level in the mitigation of risks posed by standardised and non-standardised OTC derivatives and by market based finance activities?

08:00 to 09:10 | Estonia Room

Accelerating the CMU: what priorities following the mid-term review?

The objective of this roundtable is to discuss how to accelerate the implementation of the CMU action plan and how to maximize its effects on the development of EU capital markets and the EU economy, following the mid-term review of the CMU initiative. The panel will also address the possible impacts of Brexit on the deliverability of CMU and the contribution that a strengthening of EU capital markets supervision may bring to the acceleration of CMU implementation.

SPEAKERS

Chair

Steven Maijoor
Chair, ESMA

Public Authorities

Neena Gill
MEP, ECON Committee, European Parliament

Olivier Guersent
Director General, DG FISMA, European Commission

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

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

Industry Representative

Alexander Batchvarov
Head of International Structured Finance Research, BofA Merrill Lynch Global Research

Stéphane Boujnah
Group Chief Executive Officer & Chairman of the Managing Board, Euronext

Francesco Giordano
Chief Operating Officer, UniCredit S.p.A.

POINTS OF DISCUSSION

Are the priorities identified in the mid-term CMU review the appropriate ones for further developing EU capital markets? How may the implementation of the upcoming CMU priorities be accelerated at the industry and Member State levels?

What are the main short and long term challenges and opportunities associated with Brexit for the deliverability of the CMU?

What can be expected from a strengthening of the supervision of capital markets in the EU and how may it contribute to accelerating the implementation of the CMU? How can the effectiveness and consistency of supervision of EU capital markets be improved in the EU?

BACKGROUND PREPARED BY EUROFI

Progress made in the implementation of the CMU action plan

The Capital Markets Union (CMU) project was designed as an EU-wide project aimed at developing EU capital markets in order to connect savings to investment, enhance private risk-sharing and foster growth by providing alternative sources of financing for SMEs and infrastructure projects. The Action Plan of September 2015 set out the actions necessary to put in place the building blocks of CMU by 2019.

20 of the 33 actions of the Action Plan have been delivered by the EU Commission (EC) – i.e. the corresponding legislative frameworks have been adopted and are in the process of being implemented - including the modernization of prospectus rules, a framework for simple, transparent and standardized (STS) securitization, revised rules for venture capital fund passports, revised prudential rules for insurance companies investing in infrastructure projects, rules on preventive restructuring and second chance for entrepreneurs. The remaining actions of the 2015 Action Plan have been initiated and are due to be completed by the end of 2019. Among these, three key legislative proposals should be completed by the beginning of 2018: a proposal on a Pan-European Pension Product (PEPP) was published in June 2017, a legislative proposal specifying conflict of laws rules for third party effects of transactions in securities and claims is due to be published in Q4 2017 and an EU framework for covered bonds will be proposed in Q1 2018.

New priority measures defined following the mid-term review

Following the mid-term review of the CMU initiative conducted at the end of 2016, a set of new priority measures was defined with a focus on simplifying cross-border investment, developing capital market ecosystems throughout the EU and addressing additional dimensions of the development of capital markets (supervision, technology, sustainable investment…):

- Improving the effectiveness and consistency of the supervision of capital markets at the EU level through a review of the functioning of the European Supervisory Authorities
- Ensuring a more proportionate regulatory environment for IPOs for SMEs seeking to raise less than EUR 100 million on public markets
- Supporting the development of local capital market ecosystems throughout the EU (e.g. with technical assistance provided by the EC)
- Removing the regulatory barriers to the cross-border distribution of investment funds in the EU (e.g. marketing, administrative and notification requirements, regulatory fees, barriers to online distribution)
- Harnessing the potential of fintech to transform business models in asset management, investment intermediation and product distribution by proposing more proportionate licensing arrangements (e.g. for crowdfunding) and a passporting framework
- Shifting private capital towards sustainable investment through measures to improve confidence in such investments and an appropriate regulatory recognition of the risk-return performance of these assets
- Improving the functioning of secondary markets for NPLs with more predictability and transparency.

Main implementation challenges

A hard Brexit with no specific EU-UK trade agreement regarding financial services could be a significant challenge to the deliverability of the CMU, due to the current dependence of EU capital markets on UK-based counterparties and financial services provided by the City. It is however also an opportunity to further develop and integrate EU27 capital markets. A question in this regard is therefore whether the EU27 countries are able to coordinate their efforts towards building stronger EU capital markets and strengthening the consistency of their supervision. This is particularly important for wholesale and derivatives–related activities, which are mainly based in the UK at present and for funding sources that are essential for SMEs such as venture capital or IPO capabilities, A first issue is whether the expected transfers from the City will help to achieve a better allocation of capital market activities across the EU and whether the rules proposed by ESMA to avoid letter box entities and regulatory arbitrage across Member States will be effective. The third-country dimension of CMU-related EU regulations also needs to be considered in the Brexit perspective.

Another issue is whether the CMU action plan can be implemented fast enough and with a sufficient level of ambition to achieve CMU objectives. Although many new rules and frameworks part of the CMU action plan have been or are in the process of being adopted, actually implementing them and reaping their full benefits in the market may take time and requires strong momentum. Improving the effectiveness and consistency of the supervision of capital markets at the EU level will help, by facilitating a consistent implementation of CMU actions throughout the EU, but the success of the CMU is also very dependent on the commitment of Member States (e.g. in dismantling barriers) and of the industry (in implementing and leveraging these new measures). This is acknowledged by the EC - the technical assistance that is being proposed by the EC to an increasing number of Member States to support the development of their local and regional capital markets is an example of this and efforts made to provide tools to closely monitor the progress made with the implementation of the CMU is another illustration – but involving effectively Member States and the industry in the implementation of the CMU remains challenging. Some observers have suggested in this perspective that the CMU approach could be streamlined in order to focus it, at least in the short term, on a smaller set of key measures likely to drive significant progress (e.g. regarding the financing of SMEs and long term projects), given the potential difficulty of implementing in a timely and effective way a wide toolbox of measures.

A further issue that is currently being tackled but deserves continued attention are the unintended consequences of other regulatory requirements (e.g. banking and insurance prudential rules) that may hinder the implementation of the CMU by affecting notably market-making activities or the investment capacity of institutional entities.

09:10 to 10:20 | Estonia Room

CRD V / CRR II pending issues

The session is intended to clarify the issues regarding the balance between financial stability, market confidence and the cost and the efficiency of essential EU financing mechanisms, the level of bank consolidation and competition in the EU and the deepening the EU single market for financial services, which are posed by the EU Bank regulations and directives and notably the leverage and liquidity ratios, the bank interest risk framework, IFRS 9, the evolution of Pillar 2, which are currently discussed. Possible regulatory evolutions in the EU will also be discussed, notably taking into account the current trend toward an alleviation and optimisation of bank regulatory frameworks observed globally.

SPEAKERS

Chair

Kadri Martin
Counsellor for Financial Services, Economic and Banking Affairs, Permanent Representation of Estonia to the EU

Public Authorities

Corso Bavagnoli
Assistant Secretary, Financial Department of the French Treasury, Ministry of Economy and Finance, France

Per Callesen
Governor, Danmarks Nationalbank

Mario Nava
Director, Financial System Surveillance and Crisis Management Directorate, DG FISMA, European Commission

Industry Representatives

Nicolas Duhamel
Head of Public Affairs, Groupe BPCE

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

Dan Sørensen
Member of the Executive Board, Nykredit Bank

Diederik Van Wassenaer
Global Head Regulatory and International Affairs, ING Group N.V.

POINTS OF DISCUSSION

What are the issues posed by the EU Bank regulations and directives currently being discussed – leverage ratio, liquidity ratios, bank interest risk framework, IFRS 9, evolution of Pillar 2, …? Are the proposed evolutions striking an appropriate balance between financial stability, market confidence and the cost and the efficiency of essential EU financing mechanisms?

To what extent are currently discussed bank capital requirements (waivers, simplifications…) likely to contribute to deepening the EU single market for financial services? How to amend the measures that might facilitate national bias and further fragment the single banking market? Is the proposed regulatory framework (CRR-CRD) likely to foster an appropriate level of bank consolidation and competition in the EU or in each Member State? Is the existing regulatory framework sufficiently proportionate?

What are the main issues and priorities to adequately simplify the bank regulatory framework and make it effectively proportionate to the riskiness, size… of financial institutions?

What are the lessons to be drawn from the general trend observed across the world toward an alleviation of bank regulatory frameworks? What are the issues raised by the multiplication of national and regional reviews of the international bank regulatory framework?

Making EU bank rules more proportionate and less burdensome

In November 2016, the EU Commission presented a banking reform package, which aims to complement the reforms that the EU implemented in the wake of the financial crisis (the so-called Basel III). Although the bill targets many improvements in different areas e.g. further harmonisation and consistency across the EU by reducing national discretions, deepening the single market by considering cross border banks as a single entity, etc., this is primarily an almost final contribution to the implementation of Basel III in the EU.

On this occasion the EU Commission is also considering some means to make EU bank rules more proportionate and less burdensome for smaller and non-complex banks. Indeed, in the reform package the Commission undertakes to define whether there is a case to distinguish between large and small banks and drafts proportionate approaches.

In particular the Commission focuses on a reduction of the burden on smaller institutions in all the recent reform areas of the CRR/CRD, notably it has proposed a variety of relief measures and related thresholds.Actually, there are at least two possible approaches to achieve such an objective.

The first – the work being done by the EU Commission - is a detail-driven approach, which introduces special exceptions or adjustments on a rule by rule basis. The other one is the creation of separate specific and dedicated regulatory frameworks for smaller or medium-sized institutions in addition to the framework specific to large multinational institutions, which would only be subject to the fully loaded Basel III requirements in the EU. Nevertheless, there is also room for improvement in reducing the complexity of the reporting and the regulatory burden regarding larger banking groups in the EU.

Accounting for the specific vulnerabilities and business model of each financial player in order to facilitate the provision of the necessary funding for the economy

Another topic which raises comments is related to the evolution of the Pillar 2 of the banking regulation and stress testing regulatory approaches in particular.

Currently Pillar 2 is bank-specific and based on the bank's own assessment of its risks. In this perspective each financial institution in addition to a common scenario, defines its own stress test scenarios, in order to fit appropriately with its risk profile accounting for its specific vulnerabilities and business model. It is on this basis that the institution will define the necessary evolutions of its own funds to be envisaged. These bank-specific stress tests are also essential for the credibility of the outcome of internal risk-models.

However, notably for resolution planning reasons, pillar 2 processes and stress testing, might become more standardised. This is however often considered as threatening the consistency of the overall bank regulatory architecture.

The proposed bill of the EU Commission is also trying to address some regulatory issues reducing the ability of the EU banking institutions to provide the necessary funding for the economy and in particular for SMEs and infrastructure projects, and to facilitate trade finance generally.

Indeed, this bill comes after the publication by the EU Commission of the results of Call for Evidence on EU financial services - a public consultation looking at the cumulative effect of the new financial sector rules put in place since the crisis. Although this report, according to the Commission, confirmed that the overall framework is working well and consequently, the overall financial services framework does not need to be changed, however, "targeted follow-up actions to fine-tune the framework" were proposed, among which figured removing unnecessary regulatory constraints on financing the economy, enhancing the proportionality of rules and reducing undue regulatory burdens.

Economic growth and financial markets' activity is a general concern

It is even more important that the High Level Expert Group on Sustainable Finance, has recommended in its interim report, the reforming of the EU's rules and financial policies in order to facilitate green and sustainable investment. The report considers in particular that, as the largest asset pool in the EU, banks are still expected to play a key role in sustainable lending. Yet the Expert Group stresses that there is still the perception among banks that the current capital framework charges some lending operations and long-term exposures more than is warranted by risk considerations, since intrinsic recovery values of infrastructure are higher compared with corporate debt.

In the US, the Executive Order 13772 on February 2017, required the US Administration to comply with a set of explicit Core Principles to regulate the United States financial system. Among these principles feature the necessity to "prevent taxpayer-funded bailouts", the need to "foster economic growth and vibrant financial markets" and to "enable American companies to be competitive ". Finally, the US Administration has to "advance American interests in international financial regulatory negotiations and meetings".

Last, in July 2017 the FSB issued its Framework for a Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms intended to guide analyses of whether these reforms are achieving their intended outcomes and help to identify any material unintended consequences. Indeed, the FSB considers that with the main elements of the post-crisis reforms agreed and the implementation of core reforms underway, an initial analysis of the effects of these reforms is becoming possible. The intention is to determine whether any additional action is required in the light of sufficient evidence.

The conceptual and methodological challenges related to such assessments are huge. Various qualitative and quantitative tools will be developed among which specific metrics will be developed to identify issues and trends pertaining to the reforms, as well as any regulatory gaps.

Particular attention will be given in addition to overall results, to the effectiveness of individual reforms and to the interaction and coherence of their consequences.

On this basis FSB evaluation reports will be approved by the FSB Plenary before consultation and before publication. The final responsibility for deciding whether and how to amend a particular standard or policy remains with the body that is responsible for issuing that standard or policy.

All in all, the multiplication of policy or regulatory regional and global initiatives redefining the objectives of the banking regulation and assessing their impacts even if they should most likely lead to targeted evolutions, raises many issues regarding the consistency of international standards going forward, the coordination of their review, and the level playing field at the global level.

09:10 to 10:20

Tallinn Room

Attracting retail investors to EU capital markets and PRIIPs / MiFID II pending issues

This roundtable will discuss the importance of retail investors for the development of capital markets in the EU and the achievement of CMU objectives, the main obstacles to overcome and the regulatory and market-driven actions at the distribution and product levels needed to increase the engagement of retail investors in securities markets. In terms of scope this panel will cover all securities with a specific emphasis on equity investment.

SPEAKERS

Chair

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

Public Authorities

Birgit Puck
Managing Director Securities Supervision, Austrian FMA

Verena Ross
Executive Director, ESMA

Industry Representatives

Urban Funered
Director of Public Policy, Fidelity International

Florence Lustman
Chief Financial Officer, La Banque Postale

Vincent Remay
Advisor to the Chairman, Tradition

Antonio J. Zoido
Executive Chairman of the Holding, BME

Expert

Niels Lemmers
Managing Director, European Investors' Association

POINTS OF DISCUSSION

How important is the development of retail investment for the achievement of CMU objectives? What are the main obstacles to a greater engagement of retail investors in EU capital markets? What are the priorities?

What are the improvements needed at the distribution level for developing retail capital market investment in the EU? Will the actions underway (CMU, MiFID II, PRIIPs) provide the appropriate incentives in this regard? What can be expected from fintech developments regarding retail investment?

Are any actions needed at the EU level for improving the competitiveness of retail investment products? How could more equity investment by retail investors be encouraged?

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10:30 to 11:35 | Estonia Room

Can the asset management industry provide new forms of financing for the EU?

This roundtable will discuss the importance for the CMU of further developing asset management, whether the EU fund frameworks allow the EU fund market to innovate and develop in a competitive way and how to improve the cross-border distribution of investment funds within the EU. The panel will also address the third-country dimension of EU fund regulations and the impacts that Brexit may have on the EU asset management sector.

SPEAKERS

Chair

Gerben Everts
Member of the Executive Board, Dutch AFM

Public Authorities

Joe V. Bannister
Chairman, Board of Governors, Malta FSA

Natasha Cazenave
Deputy Head of the Policy and International Affairs Directorate, AMF

Alfred Lejsek
Deputy Director General for Financial Markets, Federal Ministry of Finance, Austria

Industry Representatives

Tom Ahern
Corporate Trust EMEA Regional Head, BNY Mellon

Eric Derobert
Group Head of Communications & Public Affairs, CACEIS

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

Jon Griffin
Managing Director and Chief Executive Officer, JPMorgan Asset Management Europe

POINTS OF DISCUSSION

How important is the development of asset management for the CMU? Do EU fund frameworks allow the asset management sector to play a significant role in the financing of the EU economy? How could the asset management sector provide a stronger contribution to the achievement of the CMU and are any further policy measures needed in this regard?

How may the cross-border distribution of investment funds be improved within the EU and how important is this for the achievement of CMU objectives? Is there a need for any further legislative actions in this area and what can be expected from more consistent supervision of capital markets in the EU? What role may digitalization play?

How important is the third-country dimension of EU fund legislations for the development and competitiveness of the EU investment fund market? What impact may Brexit and related measures have on the current functioning and development of the EU asset management sector?

The development of asset management in the EU is a key element of the Capital Markets Union (CMU) action plan. Investment 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 throughout Europe.

Despite significant growth of the EU asset management sector, improving its competitiveness remains a significant challenge

EU frameworks cover most investment needs. UCITS funds have been a longstanding success in Europe and internationally, both with retail and institutional investors, and AIFMD provides a consistent set of rules for the safe provision of AIFs to professional investors in Europe. These frameworks have been completed with more specific products (ELTIF, EuVECA, EuSEF) targeting long term investment and with specific rules for MMFs. Since the 2008 crisis, the assets held by investment funds have doubled in the EU. However, the competitiveness of the EU fund sector still needs improving.

The main challenge is the persistent fragmentation of the EU fund market, which counts a high number of funds of a relatively small average size (notably compared to the US). This fragmentation, which increases management costs and lowers potential investor returns, is due to multiple factors. Some issues may be tackled by stronger supervisory convergence at the EU level (i.e. differing implementation of UCITS rules across EU jurisdictions, coexistence of domestic frameworks with EU ones), but others are more structural (e.g. prevalence of closed distribution models, fiscal issues).

A second issue is making sure that the EU market evolves towards a product structure that allows an effective allocation of capital. Developing the new fund categories aiming to support long term investment and SME funding (ELTIF, EuVECA, EuSEF…) is a first objective. Prudential rules related to investment in these funds have been improved, but further investor education about their liquidity characteristics may be needed as well as tax incentives. Another question is whether the development of simpler and cheaper products should be favoured and how to achieve this. Cheaper passive funds such as ETFs for example have been growing very rapidly in the EU over the past few years, but they still only represent a relatively limited share of the market in the EU compared to the US.

Finally, the third-country dimension of EU fund frameworks and the potential impacts of Brexit are another issue to be considered. Specific rules have been proposed by ESMA aiming to avoid letter-box entities and to mandate that sufficient substance requirements are met in the EU in the perspective of possible post-Brexit relocations. Many industry players are however concerned that an excessive application of such rules might impact the current industry structure, e.g. restricting the ability to outsource certain portfolio management activities outside the EU. Pending questions are also whether the consistency of third-country rules of UCITS and AIFMD needs improving and the possibility of third-country AIFMD passports.

Developing cross-border fund distribution in the EU is another key challenge being addressed in the CMU

Cross-border fund distribution is still relatively limited in the EU, despite UCITS and AIFMD passports and harmonized MiFID rules. This potentially reduces competition and choice for investors and increases their costs. Although 80% of UCITS funds benefit from a passport, the proportion of funds actively marketed across borders is significantly lower. One third of funds with a passport are only sold in one Member State in addition to their home country and another third is not sold in more than 4 Member States outside their home country.

Following a mapping of the main regulatory barriers to UCITS and AIF cross-border distribution, possible policy options (simplification and harmonisation of certain requirements, definitions or processes, centralisation of certain activities or processes at EU level, prohibition of certain specific domestic requirements…) have been identified in five main areas, with a view to considering a possible legislative proposal in Q1 2018: (i) Marketing requirements, (ii) Administrative requirements, (iii) Regulatory fees, (iv) Notification requirements, (v) Online distribution.

The existence of other barriers related to distribution model and investor confidence issues has also been emphasized.

A first issue is the prevalence in Europe of integrated or closed distribution models, primarily bank networks, which mainly distribute in-house products. A possible solution could be to facilitate the development of open architecture distribution supported by digital solutions, which involves, from a policy standpoint, notably reducing possible barriers to the development of fintech solutions across Europe (e.g. possible need for more proportionate licensing arrangements and for a specific passporting framework) and ensuring that appropriate investor protection can be ensured.

Another issue is the lack of investor confidence with regard to foreign funds resulting in a frequent bias in favour of local products. This may be addressed with appropriate information, marketing material and efficient supervision. But improving financial literacy is also essential. Some actions have been initiated (e.g. exchange of best practices on financial literacy programmes), but a stronger focus on this objective is needed, many believe, as well as a clarification of the respective roles of the public and private sectors in this regard.

10:30 to 11:35 | Tallinn Room

Impact of bank prudential rules (FRTB, NSFR) on EU capital markets taking into account the global context

The session is intended to assess the main expected impacts of the FRTB and NSFR on EU financial activities and players taking into account the specificities and needs of the different capital markets across the EU.

Taking into account the current regulatory trends in different regions globally, the panel will discuss the possible improvements required by these frameworks in order to better balance their contribution to financial stability and the financing of the economies.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Gerry Cross
Director of Policy and Risk, Central Bank of Ireland

Ryozo Himino
Vice Minister for International Affairs, Japan FSA

Mario Nava
Director, Financial System Surveillance and Crisis Management Directorate, DG FISMA, European Commission

Frédéric Visnovsky
Deputy Secretary General, ACPR

Industry Representatives

Damian Harland
Managing Director, Group Treasury, Barclays Bank

Christelle Lefebvre
Global Markets, Head of Regulatory Affairs and Strategic Projects, BNP Paribas

Maarten Rosenberg
Chief Risk Officer, MUFG Bank Europe

POINTS OF DISCUSSION

What are the main financial stability improvements expected from the implementation of the FRTB and the NSFR in the EU?

What are the expected impacts of the FRTB and NSFR on EU financial activities and players? What are the main specificities (e.g. size of certain markets, regional practices, use of covered bonds, …) of the different capital markets across the EU that may justify adjusting related international standards?
What are the expected impacts of the FRTB and NSFR on government bonds, corporate bonds, Repos, Securitisation, CDS markets, notably in the EU?

What are the success factors for achieving a useful evaluation of the international regulatory frameworks at the regional and the global level, regarding notably the market activities of banks?
What lessons can be drawn in this respect, from the reviews of the standards already completed in the US and the EU?

Will it be possible to improve the balance between financial stability and the financing of the economy across regions in the world taking into account regional or national specificities?
What is the expected impact of the outcome of the Executive Order on Financial Regulation in the US, on the implementation of international standards presently going forward?

BACKGROUND PREPARED BY EUROFI

In November 2016, the EU Commission presented a banking reform package, which aims to complement the reforms that the EU implemented in the wake of the financial crisis (the so-called Basel III), which is primarily an almost final contribution to the implementation of Basel III in the EU.

In this respect among the amendments to the CRD IV and the CRR, proposed by the EU Commission, the implementation at the EU level of the global standards regarding the Net Stable Funding Ratio and the Fundamental Review of the Trading Book deserves specific attention as far as EU market finance activities are concerned.

FRTB: architectural and calibration issues potentially weigh on market activities

The Basel committee has initiated a Fundamental Review of the Trading Book (FRTB) in order to address the flaws remaining in international standards related to bank trading activities, despite their general overhaul (Basel 2.5) achieved in the aftermath of the financial crisis.

The European Commission tried to address some of the shortcomings identified within the proposed FRTB, by introducing targeted adjustments regarding notably some EU sovereigns, covered bonds, STS securitisation. In addition, a 0.65 factor could be applied to the new capital charges (the new rules are mandatory two years after the enforcement of the EU proposal) during a three-year period. During this phase-in period, the EBA is expected to report on the appropriateness of the framework calibrations.

The industry acknowledges the need to address the flaws specific to the Basel 2.5 framework. However, many EU and non EU market-players express concern regarding the new trading book framework.

Firstly, they consider that the design and calibration of the proposed framework are far from being ready either in the EU or globally.

More fundamentally, the architecture of the framework – i.e. the usage of both internal models and the standardised, extensive back-testing, etc. - seems to go against the objective of defining a framework combining simplicity, proportionality and risk sensitiveness.

Beside the complexity of the framework, the industry also anticipates large increases of capital requirements. It is important to highlight in this respect the commitment made by international and European bodies (the GHOS and ECOFIN respectively) that overall capital levels will not increase significantly.

Finally, the industry is of the opinion that the consequences for market-making of an increase in market-risk capital, even if it affects only a relatively small number of banks, must be carefully considered notably in a context where the EU is trying to increase the share of market finance.

Furthermore, the industry insists on the fact that such a framework should not be recalibrated and implemented at the EU level only, and that sufficient coordination is necessary at the global level, to address financial stability and level playing field challenges at the global level.

NSFR: will proposed adaptations of the global framework to EU specificities, suffice to achieve adequate financing to the economy and financial stability?

In the proposed revision of the CRD, the Commission introduced a binding net stable funding ratio (NSFR), which requires credit institutions to finance their long-term business with stable sources of funding in order to increase the resilience of banks to funding constraints.

The Commission following the advice provided by the EBA, aligned the rules of calculation of the EU NSFR with the BCBS' standards, but adapted some of them to take into account European specificities.

However, several services and market functions are negatively impacted by their proposed treatment in the NSFR framework. Indeed, the framework introduces unnecessary costs for derivative transactions, costs that are disconnected from the actual funding risk.

In addition, this liquidity framework is negatively impacting market makers in equities and other securities, which are important in the context of the Capital Market Union (CMU).

According to the EBA QIS 2015, there seems to be already strong compliance with the NSFR in most EU credit institutions since 70% of banks are already compliant and only 14% of the banks in the sample have NSFRs below 90%. Nevertheless, the EBA states that the shortfall of non-compliant banks in the sample in December 2014 amounted to EUR 595 billion. Such a significant shortfall was mainly concentrated in a small fraction of banks.

In addition, trade associations stress that these assessments are too general. Provided that NSFR deficits arise mainly in connection with capital market activities, a bank primarily operating in retail markets and benefiting from funding excesses, would not be able to become a market maker without a costly strategic expansion into such activities.

Finally, the impact of the NSFR and the FRTB should be assessed together, with also all other regulatory reforms adopted in the aftermath of the 2008 crisis (among which figure MREL, TLAC, leverage ratio, ...), so that their cumulated costs and benefits can be comprehensively evaluated.

Multiple initiatives globally to assess the actual impact of bank regulations

Meanwhile, in the US, the Executive Order 13772 on February 2017, required the US Administration to comply with a set of explicit Core Principles to regulate the United States' financial system.

Among these principles feature the need to "foster economic growth and vibrant financial markets" and to "enable American companies to be competitive ". Finally, the US Administration has to "advance American interests in international financial regulatory negotiations and meetings".

As a backdrop, in July 2017 the FSB issued its Framework for a Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms. Indeed, the FSB considers that with the main elements of the post-crisis reforms agreed and the implementation of core reforms underway, an initial analysis of the effects of these reforms is becoming possible. The intention is to determine whether any additional action is required in the light of sufficient evidence. However, the final responsibility for deciding whether and how to amend a particular standard or policy remains with the body that is responsible for issuing that standard or policy.

All in all, the multiplication of policy or regulatory regional and global initiatives redefining the objectives of the banking regulation and assessing their impacts, raises many issues regarding the consistency of international standards going forward, the coordination of their review, and the level playing field at the global level.

11:35 to 12:45 | Estonia Room

Review of Solvency II

One challenge faced in the EU is to define appropriately the topics and timeline of the forthcoming revision of the whole Solvency II framework including the so-called long-term package, in order to allow the EU insurance industry to provide an adequate contribution to essential EU priorities which are notably the completion of the Capital Market Union and the improvement of the financing of sustainable growth, climate related adaptation and SMEs.

In this context the session will seek to clarify to what extent the existing regulatory framework reduces the contribution of the sector to the financing the EU economy and propose some priority evolutions to improve the situation.

SPEAKERS

Chair

Pervenche Berès
MEP, ECON Committee, European Parliament

Public Authorities

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

Nathalie Berger
Head of Insurance and Pensions Unit, DG FISMA European Commission

Alberto Corinti
Member of the Board of Directors, IVASS

Thomas Groh
Deputy Assistant Secretary for Insurance, DG of the Treasury, Ministry of Economy and Finance, France

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

Fausto Parente
Executive Director, EIOPA

Industry Representatives

Gérald Harlin
Group Chief Financial Officer, AXA Group

Giulio Terzariol
Head of Group Planning & Controlling, Allianz SE

POINTS OF DISCUSSION

What are the main issues raised by the significant number of adjustments that are suggested in the context of the revision of the delegated acts of Solvency II?

What might be the appropriate policy approaches required for the revision of the delegated acts of Solvency II (e.g. an extensive list of targeted recalibrations, redefinition of certain overarching principles regarding the right balance between risk mitigation, consumer protection and financial stability, etc.)?

What are the evolutions of the whole Solvency II framework rapidly required to support in due time the achievement of the Capital Market Union project and the development of long-term financings in the EU?

Number of elements of Solvency II deserve reconsideration

In December 2016, EIOPA started the post-evaluation of Solvency II as was foreseen in the Directive and related Delegated Acts. In this perspective the EIOPA issued a consultation paper.

The objectives of this process, which focuses on the SCR standard formula and should notably account for the recent call for evidence on EU financial services published in November 2016, are to ensure further proportionate, risk-sensitive and consistent supervisory regimes for the insurance sector and, when adequate to propose possible simplifications.

Furthermore, a feed-back from the full scale test, provided by the roll out of the regulation is also very instructive and should enable one to appropriately adjust the design and calibrations, and to simplify and make consistent all the methodologies applied in each sub module.

Many answers to the consultation provided by the industry underscore a number of elements in the Solvency II package that deserve reconsideration by policymakers. Indeed, as for any sophisticated regulatory framework, a significant number of parameters and assumptions had to be agreed upon in particular in economic conditions such as the persistent low interest rates environment. In addition, certain inappropriate comparisons with the banking sector (own funds in insurance and banking sectors) have also to be withdrawn to effectively preserve a full consistency with the specificities of the insurance sector.

A central challenge remains how to foster longer-term orientation in finance

Yet, although the Long-Term Guarantees Measures (LTG) and Measures on Equity Risk which complemented the Solvency II framework, were supposed to be reviewed two years after the review of the Standard Formula of the solvency framework, one essential issue was raised in the interim report of the EU High Level Group on Sustainable Finance, which was whether finance needs to change to move the economy towards the desired sustainable model. The report stressed that this implies adjustments to financial regulation, as well as changes in financial market practices, norms and behaviour.

Actually, one of the central challenges in this respect is how to foster longer-term orientation in finance and the wider economy, and attenuate impatience in finance and avoid decision-making, in particular regarding investments, based on too close horizons.

In this respect the report stresses that the market-consistent evaluation of assets and liabilities is equivalent to the assumption that all the assets and liabilities of an insurance company should be available for trading at any time, and warns that this does not contribute to the long term view of the insurance sector.

Nevertheless, in the Solvency II framework, the LTG precisely aims at attenuating such volatility and pro-cyclicality, in particular in a challenging macro-economy. The EIOPA will be regularly monitoring and informing on the use and impacts of LTG and Equity Risk measures, as well as on the financial position of insurers. The results of its first report show that:

- 901 insurance and reinsurance undertakings in 24 countries with a European market share of 69 % used at least one of the measures.
- 852 undertakings with a European market share of 61% used the volatility adjustment.
- 154 undertakings with a European market share of 24% applied the transitional on technical provisions.
- 38 undertakings with a European market share of 16% used the matching adjustment.
- The transitional on risk free interest rate was used by six undertakings and the duration-based equity risk sub-module by one undertaking.

The EIOPA report concludes that the Long-Term Guarantees Measures have had a significant impact on own funds and the capital requirements of insurers. For those undertakings surveyed that used the package (69%) the ratio with these measures is 193% while the ratio without them would have been 121% i.e. removing the measures would result on average in a reduction of the Solvency Capital Requirement ratio of 73 percentage points.

In other words, in the current challenging economic context these countercyclical arrangements effectively enabled insurance companies to stabilize their investment and reduced the risk of forced asset sales.

However, in the meantime, the fact that only one undertaking used the duration-based equity risk sub-module, which is suitable for those having long - beyond 12 years - liabilities and consequently investing in equities, suggests that insurance companies are not yet involved in all long-term market based financing tools and have to be further incentivised to contribute to the Capital Market Union.

Improving the equilibrium of the framework between financial stability and an adequate financing of the economy

Finally, any adjustment that might be proposed to the solvency II framework, even for the mere standard formula, should not only preserve but ideally improve the equilibrium of the framework between financial stability and an adequate contribution of the insurance industry to the financing of the economy, which is the specific objective of the Capital Market Union project of the EU Commission.

This is notably why the industry is of the opinion that the key features of the interest rate sub module of the standard formula, should only be considered in the context of the revision in 2020 of the long term guarantee package, that complemented the Solvency II framework, in the context of the revision of the Omnibus II Directive. This should also be the case for the Ultimate Forward Rate (UFR) due to the very long term horizon considered in this proposed evolution.

The creation of a separate asset class under the Solvency II standard formula for debt and equity investments in infrastructure projects, which allows for a lower risk calibration, and the work started by EIOPA on investments on unrated debt and unlisted equities should also improve the capability of the insurance industry to become an essential participant in the Capital Market Union. Similarly, the urgent need to relaunch growth on the one hand, and to rapidly foster investment in sustainable assets at least to address climate-related challenges on the other hand, are raising the issue of an early revision of the LTG package.

However, the industry considers Solvency II as conservative compared to observed cash flows, in spite of the economic design of the regulatory framework.

DAY 2 I 14 SEPTEMBER MORNING

11:40 to 12:45 | Tallinn Room

AML, KYC, data and competition challenges for digital banking

This session is intended to take stock of the issues raised by data management and control in the context of the increasing digitalisation of retail financial services. Indeed, while easier access to data is essential for fostering innovation and data intelligence opens up new opportunities, the resulting complex value chains and effective fair access to data across sectors, raise many new challenges in the retail financial area.

SPEAKERS

Chair

Kilvar Kessler
Chairman of the Management Board, Estonia FSA

Public Authorities

Jesper Berg
Director General, Denmark FSA

Carolin Gardner
Policy Expert, EBA

Jochen Metzger
Director General Payments and Settlement Systems, Deutsche Bundesbank

Industry Representatives

Massimiliano Alvisini
General Manager, Europe and CIS, Western Union

Patrick Krekels
General Counsel, SWIFT

Diederik Van Wassenaer
Global Head Regulatory and International Affairs, ING Group N.V.

POINTS OF DISCUSSION

What are the strategic challenges raised by data management and control in the area of retail banking?

How to appropriately combine data protection and data access in the context of increasing innovation, rising terrorist challenges, need for adequate privacy, etc.?

BACKGROUND PREPARED BY EUROFI

Leveraging digitalisation to developing innovation, further competition and consumer protection in payment and banking areas

The second Payment Services Directive (PSD2) is intended to make it easier to use internet payment services, but also to promote innovation in mobile and internet payment and information services. In this perspective, PSD2 opens the possibility that payment service providers and account information providers, can access the payment accounts of credit institutions - through application-programming interfaces (APIs) - in an objective, non-discriminatory and proportionate manner.

Since delivering these innovative services requires maintaining a satisfactory level of security, the PSD 2 imposes strong customer authentication to those providers accessing payment accounts, initiating transactions, and more generally carrying out actions through various and remote channels possibly facilitating fraud, money laundering, etc. risks. Finally, the Directive also makes any provider who fails to appropriately authenticate the initiation of any possible action, liable for related consequences.

Implementing the general Data Protection Regulation (GDPR) makes the situation even more challenging. Indeed, this regulation includes new requirements regarding the accountability, documentation, privacy reviews, and provides non-compliance fines.

Finally, the development of such innovative payment and information services, raises many challenges, risk and possible conflicts, since they create sets of possibly interfering, complex and fragmented interlinked value chains, which involve diverse service providers and institutions holding current accounts.

Nevertheless, the potential strategic impact may well go far beyond the challenges raised by the involvement of new service providers in the value-chains usually handled by incumbent banks.

Specific competitive strength of incumbent banks and their challengers

The implementation of PSD2 may also favour that incumbent banks and their current challengers, be actually challenged by GAFA (Google, Amazon, Facebook, and Apple) and BATX (Baidu, Alibaba, Tencent et Xiaomi) companies, with their own millions of loyal customers and related data. Data ownership is actual power. And specific and demanding regulations may eventually not be sufficient to protect the financial sphere from these powerful competitors.

Indeed, these incomers could leverage customer data to understand and target their customers better, tailor offerings and create new financial services and new business models (Uberisation) based on better anticipated demands and finally make better data-driven decisions. In particular those new financial players, could on the basis of these data, also better complete the necessary Customer Due Diligence, which enables banks to assess the extent to which a customer may expose them to a wide range of risks, including money laundering and terrorist financing.

Actually The 2017 BrandZ Top 100 Most Valuable Global Brands ranking shows Tencent, a Chinese internet group that launched one bank in 2014, ranking eighth. Alibaba, an ecommerce company that runs large money market funds and an online bank, rose four places to 14th. The four GAFA are within the first fifth, while the first banking group is fifteenth. Traditional banking groups in China are reacting. For example, the number 28 in the BrandZ ranking, ICBC, in addition to its own P2P platform, now runs an online shopping service similar to Alibaba's one.

Artificial intelligence including machine learning should enable banks to overcome many of these threats and help them to cut costs, while improving reliability and effectiveness. In addition, citizens at the moment trust traditional banks more than non-bank competitors. Last, Banks can combine physical interactions and digital experience. However, since many customers have recourse less and less to their usual digital banking services, the amount of data available to the institutions holding current accounts, might shrink progressively, reducing their ability to propose relevant services and develop new banking business models, notably those involving data valorisation.

13:30 to 13:45 **Estonia Room**

Speech

SPEAKER

Jirki Katainen
Vice President for Jobs, Growth, Investment and Competitiveness, European Commission

13:45 to 14:45 | Estonia Room

Are EU digital and Fintech initiatives up to the challenges?

This roundtable will address the main opportunities and challenges associated with digitalization and fintech in the financial sector and whether additional or specific policy initiatives are needed at the EU level in this regard.

SPEAKER

Chair

Yves Mersch
Member of the Executive Board, ECB

Public Authorities

Aleksi Grym
Head of Digitalisation, Bank of Finland

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

Vilius Šapoka
Minister of Finance, Republic of Lithuania

Cora van Nieuwenhuizen
MEP, ECON Committee, European Parliament

Industry Representatives

José Manuel González-Páramo
Executive Board Member, BBVA

Hans-Ole Jochumsen
Vice Chairman, Nasdaq

POINTS OF DISCUSSION

What are the main opportunities associated with digitalization and fintech in the financial sector and the magnitude of change that can be expected in the short to medium term? Do expected changes vary across financial activities or market segments? Which opportunities and benefits are the most clearly established?

What are the main implementation challenges and potential new risks or issues raised by digitalization and fintech developments? Do these vary across financial sectors / activities? Are applications of fintech / digitalization solutions to widescale financial processes expected in the short to medium term?

What should be the role of the public authorities and of public policy regarding digitalization and fintech developments and what are the priorities? Is there a need for a specific European initiative to support an appropriate development of fintech and digitalization solutions in the EU financial sector? What would be its main objectives and priorities?

14:45 to 15:50 | Estonia Room

Leveraging Fintech in the context of the CMU

This roundtable will discuss the role that Fintech may potentially play in the achievement of the Capital Markets Union in the short and longer term as well as the regulatory and supervisory approach needed to enable the appropriate development of Fintech at the EU level in capital markets.

In terms of scope the discussions will focus on the applications of Fintech to the capital markets (e.g. crowd-investment, robo-advice, blockchain applications for the issuance, trading and post-trading of securities…).

SPEAKERS

Chair

Olivier Guersent
Director General, DG FISMA, European Commission

Public Authorities

Lee Foulger
Head of International Department, FCA

Sébastien Raspiller
Head of Corporate Financing and Financial Markets, Ministry of Economy and Finance, France

Silvio Schembri
Parliamentary Secretary for Financial Services, Digital Economy & Innovation, Government of Malta

Industry Representatives

Teppo Paavola
Chief Development Officer and General Manager of New Digital Business, BBVA

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

Kaidi Ruusalepp
Founder and Chief Executive Officer, Funderbeam

Paul Symons
Head of Government Relations, Euroclear

Niels Tomm
Representative of the Board, Deutsche Börse Group

POINTS OF DISCUSSION

How important is Fintech for the development of EU capital markets and for the achievement of CMU objectives in the short and longer term? Is an appropriate emphasis put on Fintech in the CMU review action plan?

How may public policy and oversight enable an appropriate development of Fintech in the EU capital markets and what are the priorities? Would a European Fintech framework or approach help to enable the further development of Fintech in the context of the CMU action plan?

Fintech has the potential to foster radical change in the capital markets area

Technological innovation has been a key driver of progress in capital markets for decades but fintech solutions based on technologies such as Distributed Ledger Technology (DLT), cloud computing, big data, Artificial Intelligence… offer new opportunities that could foster radical change in the sector. Most of the practical applications of fintech being implemented or tested at present in the market are improvements of existing services / processes, but fintech may also help to build new business models and facilitates entry of new players in the market.

On the efficiency side, technology has the potential to significantly reduce costs and delays notably in areas where automation and standardization are limited. DLT solutions can for example be used to support capital market back office processes or procedures related to prospectus documentation. DLT may also help to improve security (through encryption) and data transparency (e.g. easier tracking of securities ownership). So far however fintech is mainly being experimented in relatively niche processes and markets or for adding resiliency to existing processes or databases. Larger-scale applications (e.g. regarding the DVP settlement of traditional securities transactions) are still a fairly remote objective with many challenges still needing to be tackled including scalability, standardization and interoperability, legal certainty, liability and privacy issues… Finally, RegTech solutions based on fintech may also facilitate the supervision of capital markets, but these developments are still at an early stage and may require an adaptation of some supervisory approaches.

Other fintech solutions, often based on internet applications, aim to support effective interactions among key stakeholders in the financing value chain. Investment-based crowdfunding platforms for example allow SME issuers to raise capital in a cheaper or more targeted way and individuals to invest directly in SMEs. Fintech solutions can also be used in the context of existing financing processes such as factoring, supply chain finance or trade finance.

Fintech solutions may also facilitate investment advice or the provision of standardized information on securities. Robo-advice usually combined with data aggregation and financial management tools is an example of this, allowing a cost-effective and consistent online provision of guidance on investment decisions and automated asset allocation. Initially used as standalone services, a combination of on-line tools with human interaction may help to broaden their potential customer base.

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

Supporting the development of fintech in capital markets is a key objective of the CMU

Achieving a connected digital single market is one of the key priorities of the Juncker Commission. Following the setting up of a fintech task force, the EC recently conducted a consultation in order to identify promising use cases for financial services (e.g. in asset management, investment intermediation and product distribution) and define the appropriate policy approach towards technological innovation. Four key policy objectives have been put forward by the EC: (1) Fostering access to financial services for consumers and businesses; (2) Bringing down operational costs and increasing efficiency for the industry; (3) Making the single market more competitive by lowering barriers to entry; and (4) Balancing greater data sharing and transparency with data security and protection needs. Three core principles have also been established in connection with fintech: technological neutrality on a 'same business, same risk, same rules' basis, proportionality and market integrity.

Other initiatives are being conducted at the EU level by the ESAs and the EU Parliament and at the global level by the FSB and IOSCO to evaluate the regulatory and supervisory framework needed for fintech. The EU Parliament in a recent report encouraged the EU Commission to present "a comprehensive Action Plan for boosting fintech in Europe", the suggested point of departure being the identification of legislative requirements that may cause uncertainties or barriers for its development.

Regarding capital markets more specifically, "harnessing the potential of fintech" is one of the new priorities of the reviewed CMU action plan. In policy terms, the main focus of the EC is on reducing barriers for fintech across Europe (i.e. assessing the need for more proportionate licensing arrangements or a specific passporting framework) in order to support the uptake of these solutions, while enhancing the integrity and security of the market. These actions could be building blocks of a broader EU approach to enable fintech, which seems appropriate to develop in addition to existing domestic initiatives (domestic supervisory approaches and frameworks such as sandboxes etc…) given the role that fintech can play in facilitating cross-border business. Fintech indeed does not need expanding physical presence and may facilitate many cross-border processes e.g. regarding the provision of information.

A continuous monitoring of emerging trends, opportunities and risks associated with fintech is also being conducted by the EC in order to maintain financial stability and preserve market confidence. So far assessments have not revealed major shortcomings in the application of existing market regulations (e.g. consumer protection) to fintech based processes, but potential risks need to be closely observed. Cyber-risk, which is likely to grow with the development of fintech, is a major challenge in this context and its mitigation will require continuous monitoring and the provision of appropriate tools, as well as a coordination of efforts at the EU and global levels.

14:45 to 15:50 | Tallinn Room

Impacts of digitalisation on retail banking and payments

The session is intended to discuss the benefits and challenges expected from the digitalisation of retail financial services in the EU, notably in the payment area, the subsequent evolutions in the banking sector and the likely impacts on banking regulation and supervision.

SPEAKERS

Chair

Madis Müller
Deputy Governor, National Bank of Estonia

Public Authorities

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

Felix Hufeld
President, BaFin

Marius Jurgilas
Member of the Board, Bank of Lithuania

Pēteris Zilgalvis
Head of Unit, Startups and Innovation, Digital Single Market, DG CONNECT, European Commission

Industry Representatives

Alban Aucoin
Head of Public Affairs, Crédit Agricole S.A.

Daniel Pujazón
Global Payments, Banco Santander

Jeremy Wilson
Vice Chairman, Barclays Corporate Bank

POINTS OF DISCUSSION

How may the different digital technologies and Fintechs contribute to improving retail financial services in the EU? What is the role played by digital innovation in the retail payment area? What are the evolutions and issues faced by retail banks in this context?

How are EU regulators and supervisors addressing these changes? What are the respective contributions of EU regulatory (PSD 2, ...) and infrastructure initiatives such TIPS, in this respect? What would be the contribution of the EU Consumer Financial Services Action Plan in this context?

What is the magnitude of cyber risks in the retail financial sector and what are the expected impacts of digitalisation in this respect? How to strike the right balance between innovation and cyber security?

Digitalisation: the competitive landscape in the retail banking area

Technology and connectivity are enablers for accelerating the evolution of banking services. In addition, the internet and the associated software and infrastructure platforms have empowered small players – Fintechs. Indeed, technology has the potential to facilitate access to financial services and to improve their efficiency through disruptive innovation, which is the process by which a basic product or service targeting a portion of the value chain and a small consumer segment is introduced. Later on as the service becomes more popular, it gains much momentum and develops.

Against this backdrop, in addition to Fintechs, Alibaba, Tencent, Baidu, Facebook... with billions of users and customers and huge digital capabilities, are crowding into the financial area. Most of them have already obtained the status of "e-money" institutions. Amazon and PayPal for example are also in direct competition with banks targeting the small & medium enterprises (SME) sector. Their ultimate business model is to build on their ability to data mine individuals' information and sell ads thanks to it. Yet there will always be a trust barrier for them to overcome, since trusting any of the GAFA regarding elements of financial interests is something that should take some time to develop.

Developing the ability of incumbent banks to adapt

Incumbents have to depart from the rule that bigger is better. Current technology breakthroughs allow small players to exploit less costly modular platforms and services and to quickly build relationships with consumers.

For incumbent banks, an adaptive process would only lead to a "me too" investment, resulting in limited differentiation, favouring a progressive margin erosion. Rather, to succeed in this new context, financial institutions have to leverage technology and further differentiate products and services through significant investments in data and analytical capabilities. Indeed, this should lead them to dramatically increase customer understanding and insights in order to build and deliver tailored experience and services. The great advantage that incumbent financial institutions have in this regard is their large amount of data.

A key behaviour in this respect is to develop the internal ability to unfold a strategy supporting sustained innovation, transforming the organisation until it becomes "agile" enough to react (and ideally anticipate) swiftly and positively, to market challenges and disruption. Success will also depend on the ability of bank organisations to leverage tailored networks, which trigger lock-in through vertical integration and strategic partnerships.

In this context, the EU Commission is shaping an EU Action Plan intended to further empower consumers to switch more easily to better offers. One priority under this Action Plan, is to explore how the banking sector could make use of the eIDAS infrastructure to engage with customers from a distance, since a major step has been the Regulation of electronic identification and trust services (eIDAS) which enables consumers to be recognised via an electronic identification system and use their e-signature and other trust services across the EU Single Market. The general objectives here are to correct the high costs of some payments in Europe, to make lenders able to lend cross border, to empower consumers to switch more easily to better offers, and to tackle barriers that result from differences in national regulatory regimes...

New business models could lead to new risks

However new business models of financial service providers could lead to new risks related to consumer protection, regarding notably the provision of sufficient material to enable consumers to make well-informed choices. However, feedback to the Green Paper, in particular from industry, indicated that current pre-contractual disclosure requirements might not be fit for the digital world and need to be adjusted. In particular, mobile technology could enhance consumer understanding of financial products. Appropriate new solutions could help consumers gain a better understanding of financial products or services and make informed decisions. Cyber security needs are also magnified by digital disruptions.

Targeted consultations by the EU Commission would also provide feedback on the impact that new technologies are having on financial services in order to foster access to financial services, reduce operating costs and increase efficiency, lower barriers to entry and finally adequately balance data sharing, security and privacy.

Based on this public consultation, which ran until June 2017, and on the work of the FinTech Task Force, the Commission will present an EU strategy for FinTech, determining which actions are required to support the development of FinTech and a technology-driven Single Market for financial services.

Retail payments are leading retail banking digital transformations

In this context, the payment sector is a leader in this digital context, attracting new competition from alternative services providers. In particular demand for new payments schemes and services in a multichannel world is driving the need to be more efficient, with faster payment services. In particular instant payments are expected to facilitate the creation of innovative business models, based on speed, easier use, reliability.

The Eurosystem is intending to face up the growing demand for instant payments at the European level, and to avoid national solutions reintroducing fragmentation in Europe (instant payments are already available in Italy, the Netherlands, and Spain). It is also paving the way for consumers to make person-to-person mobile payments. Eventually it would be open to settling payments in other currencies.

The Eurosystem has launched an investigation to assess market participants' needs for instant payment settlement services with operating hours up to 24/7/365. The Eurosystem specified the user requirements for a potential new TARGET instant payment settlement service.

Instant payments are settled immediately meaning that the money is moved from the payer's account to the payee's account within seconds. Commercial banks will be able to use TIPS at a maximum price of 0.20 cents per payment for at least the first two years. Payment providers, meanwhile, will be encouraged to move towards instant settlement options from November 2017.

15:55 to 17:00

Estonia Room

Addressing increasing cybersecurity risks

The objective of this roundtable is to discuss the development of cyber-risks in the EU financial sector (notably capital markets, banking sector, payment systems), their significance, the level of safety provided by the implementation of existing measures and whether additional policy measures or guidance are needed at the EU and global levels for addressing existing or new cyber-risks.

SPEAKERS

Chair

Denis Beau
Second Deputy Governor, Banque de France

Public Authorities

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

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

Pēteris Zilgalvis
Head of Unit, Startups and Innovation, Digital Single Market, DG CONNECT, European Commission

Industry Representatives

Stefano Ciminelli
Deputy Chief Information Security Officer, SWIFT

Stefan Gavell
Executive Vice President and Head of Regulatory, Industry & Government Affairs, State Street Corporation

Stephen Scharf
Chief Security Officer, DTCC

Will Semple
Cyber Threat Detection & Response, PwC

POINTS OF DISCUSSION

Where are vulnerabilities to cyber-risks the highest in the financial sector? How are cyber-risks developing in the financial sector (e.g. with technological innovation)? What is the level of awareness in the financial sector? Can some poor/best practices be identified?

What are the main characteristics of an effective cybersecurity approach in the financial sector? Do these differ across products or activities? What role can the public authorities play in this area?

Are current EU and global cybersecurity policies and approaches appropriate and sufficient for supporting the fight against cybercrime in the financial sector? Are there major differences between them? What improvements might be needed (e.g. in terms of standardization, cooperation, operational capacity…)?

Efforts are being stepped up at the EU and global levels to tackle cyber-risks

Cyber-risks are drawing increasing attention due to their fast development, their potential operational and economic consequences and the impacts they may have on consumer trust in digital solutions. These risks are particularly acute and complex to fight in the financial sector, given the strong interconnections and interdependencies between multiple financial institutions, infrastructures and service providers.

Over the past few years the EU Commission (EC) has adopted a series of measures to raise Europe's preparedness to tackle cyber-risks. Since the adoption of the EU cybersecurity strategy in 2013 there have been significant EU investments for research and innovation in cybersecurity projects and cooperation has progressed within the EU and at the global level.

An EU wide legislation on cybersecurity, the Directive on security of networks and information systems (NIS Directive) was adopted in July 2016 in order to strengthen Europe's cyber-resilience and its cybersecurity industry. The Directive sets out principles to: (1) step up cooperation across European Member States; (2) support the emerging single market for cybersecurity products and services; (3) foster a better alignment of demand and supply for cybersecurity products and services and encourage the development of common, sector-neutral and replicable cybersecurity blocks (e.g. encrypted storage and processing, secured communication…).

The role of some EU bodies set up to foster cooperation is due to be reviewed, notably the ENISA agency which should also support EU countries in their work towards higher cybersecurity standards. The NIS Directive has moreover established coordination mechanisms among Member States regarding the exchange of information related to cyber-incidents and risks and the promotion of swift and effective operational cooperation on specific cybersecurity incidents.

Guidelines have also been defined at the global level in some areas, such as the CPMI-IOSCO guidance on cyber resilience for financial market infrastructures, which promotes sound cyber governance, the ability to resume operations quickly and safely following an attack and the implementation of effective intelligence and rigorous testing.

Cooperation and standardisation however need to progress further at the EU and global levels

Cyber-resilience and the interconnected nature of the financial system call for market-wide efforts and also for responses that go beyond IT and technology aspects. A first element is developing effective collaboration between market participants and the authorities concerned and also ensuring that coordinated or similar approaches are used notably in areas such as penetration testing. An appropriate balance should however be found between further standardisation and the preservation of sufficient adaptability and reactivity, which are important in such a diverse and fast-changing environment. This is why stakeholders generally support the principles-based approach of the NIS. Some however suggest that monitoring best practices at a more granular level could be helpful, as well as implementing more prescriptive requirements in some areas such as testing.

Another key component of cyber-resilience is the efficient sharing of information on threats which may be further facilitated with appropriate protocols (a common language and standards for dealing with cyber risk) and the use of automated information sharing. Information-sharing should also move beyond incident reporting towards the sharing of threat intelligence (details on the techniques used, the attackers…) and of effective responses. There is moreover a need to raise awareness within financial institutions at all management levels about cyber-risks, and also across the whole financial value chain, particularly when some activities are outsourced.

Finally, increasingly coordinated cyber-attacks at the international level such as the recent ransomware WannaCry attack and the cross-border nature of many financial activities and players emphasize the need for EU-wide and global cooperation. Some observers also advocate the setting up of a European capability to tackle rapidly attacks spreading across EU country borders, beyond the implementation of NIS principles in each Member State. A major issue in this regard is that EU countries differ in their cyber-readiness and cyber-security strategies and laws. Moreover well-resourced response teams are not available in each Member State, which makes the EU as a whole more vulnerable.

The impact of new technologies on cyber-resilience needs to be appropriately addressed

New technologies such as fintech, digitalisation and cloud applications are attractive because of their potential to reduce costs and bring about transformational change in the financial sector. However, digitisation and automation also contribute to extending the exposure of the sector to cyber attacks because they increase interconnectedness among actors and processes and introduce new – possibly unregulated - players into processing chains. Moreover, technology increases possibilities of direct access of customers to financial processes.

Although technology developments have not created so far significant stability problems in the financial sector, these new risks must be appropriately monitored and addressed in order to ensure that the benefits of innovation are not outweighed by additional vulnerabilities. The guidelines stated in the NIS and CPMI-IOSCO frameworks should help to address the risks related to fintech and digitalisation, although some issues might require further fine-tuning or prescription. This is the case particularly when activities are outsourced to third-parties outside the financial industry or happen in the cloud. The risks some concepts such as 'smart contracts' may pose in this context may also need further assessing. On the positive side new technologies such as artificial intelligence and big data may also support the fight against cyber-risk e.g. helping to perform an early detection of unusual behaviours.

15:55 to 17:00 | Tallinn Room

Leveraging Fintech in the insurance industry

The session is intended to discuss the effective impacts, challenges and reactions specific to the insurance industry, which result from digitalisation, in terms of products, services, value chain, as well as supervision and regulation and deepening of the EU single retail insurance market.

SPEAKERS

Chair

Sandrine Lemery
First Deputy Secretary General, ACPR

Public Authorities

Nathalie Berger
Head of Insurance and Pensions Unit, DG FISMA, European Commission

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

Katja Julie Würtz
Head of Consumer Protection Department, EIOPA

Industry Representatives

Erica Arnold
Chief Group Enterprise Services Officer, Zurich Insurance Company Ltd

Gino Del Sesto
Head of Government Relations for Western & Central Europe, Metlife

POINTS OF DISCUSSION

What are the main expected/likely impacts of digitalisation in the insurance sector?

What are the main expected/likely impacts of digitalisation on the insurance sector notably regarding risk e.g. additional interconnectedness and new types of threats to financial stability, insurance products, improved insight on risk, etc.? What is the magnitude of cyber threats in the insurance area and will these be increased by digitalisation?

What are the main challenges faced by supervisors and regulators in the context of the digitalisation of the insurance sector?

BACKGROUND PREPARED BY EUROFI

In the insurance area, a digital transformation is also taking place

Currently, the financial area is facing a specific challenge, which is that technology is making it easier day after day to answer long-time unsatisfied customer expectations e.g. Improved customer experience, enhanced product attractiveness, personalisation, etc.

In the insurance area, digital platforms are emerging, electronic devices, vehicles etc. are starting to network through internet connections in the context of Internet of the Things (IoT), Big data and Artificial Intelligence are increasingly contributing to the further adjustment of risk profiles and prices, and favour cross selling... New products e.g. peer to peer or on demand insurance... are also emerging.

So far, across the insurance sectors these trends are apparently stronger in property and casualty, and health insurance sectors. Similarly, the impacts at this stage on the value chain are uneven: distribution and pricing are more impacted than marketing and claim processing.

Innovation involves the so-called Fintech - InsurTech in the insurance sector - since "technologically enabled financial innovation could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services" . This trend is significant though still emerging in the insurance sector. While in 2015 total global investment in Fintech amounted to USD19 billion, InsurTech only attracted USD2.5 billion.

The key success factor of InsurTech is that they have agile cultures and ways of working, they are focused on customer experience, are early adopters of new technology... Indeed, technology is an enabler only whenever an organisation is agile enough to think differently and absorb permanent innovation.

The digital challenges faced by incumbent insurance companies

Yet, for many reasons, technology, customer experience focus, etc. is precisely what incumbents have difficulty in managing. This is more than understandable when one considers to what extent the arrangements resulting from innovation - multichannel interactions (merchant web sites of diverse types, mobile phone, branches...), the addition of new functions (agents, aggregators, comparators, ...), may question legacy IT, existing culture and possibly endanger existing organisations and stakeholders.

However, the insurance sector is actively reacting. The IAIS quotes a PwC report, which classifies the type of interactions they have with InsurTechs: incumbents are actively monitoring innovation and identifying emerging customer expectations and related risks, they often partner with start-ups and build pilot initiatives and in addition develop financing mechanisms in support of InsurTechs...

The insurance regulators have started their efforts to understand emerging digital issues

In any case these trends warned supervisors under the aegis of the IAIS, to start anticipating their likely consequences though they are still considered to be difficult to foresee since many technological innovations still need to demonstrate lasting and significant potential impacts and viability.

In the short term, regulators have started their efforts to understand the possible impact on emerging business models and offers ending in effective competition, risk selection and consumer choice. Similarly, a reflection appears to be necessary on data security and transferability. The increasing complexity of insurance value chains, or rather of the value chains involving insurance services, also imposes reflecting on the ability of supervisors to complete their task and the relevant definition of regulatory and supervisory perimeters. Interconnectedness and related systemic threats, are particularly important topics.

17:05 to 17:45 | Estonia Room

Speeches: Future of global regulatory coordination in the financial sector and implications for the EU

SPEAKERS

Valdis Dombrovskis
Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, European Commission

Christopher J. Giancarlo
Acting Chairman, U.S. CFTC

Richard Gnodde
Chief Executive Officer, Goldman Sachs International

17:45 to 18:15 | Estonia Room

Exchange of views: **Prospects of global policy coordination in the new political, economic and monetary context**

Global coordination is essential for fostering an international level playing field, for mitigating the risks of highly interconnected activities such as derivatives and sharing the data needed for assessing market weaknesses. Sustainable cross-border capital flows and open markets are essential for achieving sustainable and balanced growth. However, increasing risks of protectionism and the dangers of unravelling the post-crisis G20 regulatory consensus as some countries intend to rollback important elements are creating uncertainty about the future of global regulatory coordination.

The objective of this exchange of views is to discuss the perspectives of global financial regulation in a context where some jurisdictions wants to preserve their own interests 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

Susan Baker
Director, Office of International Banking and Securities Markets, U.S. Department of Treasury

Olivier Guersent
Director General, DG FISMA, European Commission

Vincenzo La Via
Director General of the Treasury and Chairman, Financial Services Committee, Ministry of Economy and Finance, Italy

Industry Representative

Andrei Magasiner
Corporate Treasurer, Bank of America

POINTS OF DISCUSSION

How should differences in the implementation of Basel banking requirements between the EU and the US be addressed?

Does a review of Dodd Franck raise any financial stability or level playing field issues regarding the consistency of derivatives and market based finance rules?

What are the perspectives for future global financial regulation and coordination?

18:15 to 18:50 | Estonia Room

Exchange of views: **Review of the operations 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, 7 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 aim of this conversation is to discuss possible areas where their effectiveness and efficiency can be strengthened and improved in order to achieve a more effective financial union. Speakers will be invited to propose possible adjustments to the powers, tasks and governance of these Authorities in the Brexit context, notably to enhance regulatory and supervisory convergence.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Gabriel Bernardino
Chairman, EIOPA

Andrea Enria
Chairperson, EBA

Markus Ferber
MEP, First Vice-Chair, ECON Committee, European Parliament

Steven Maijoor
Chair, ESMA

POINTS OF DISCUSSION

What are the difficulties observed in the implementation of the single rule books and their impacts for the EU financial sector and economy?

How may regulatory and supervisory convergence be improved? Does progress in this area require changes in the governance, powers or tools of the ESAs?

Should certain supervisory activities regarding cross-border activities and entities be further centralised? Would this help to achieve a more effective financial union?

BACKGROUND PREPARED BY EUROFI

Since their establishment in 2011, the ESAs (ESMA, EBA, EIOPA) have carried out remarkable work contributing to the building of the Single Rulebook, to ensure a robust financial framework for the Single Market and to underpin the building of the Banking Union as part of the EMU.

They have succeeded through the quality of their staff and the leadership of their management in becoming a major center of competence recognized worldwide. The three agencies have been instrumental in achieving a single rule book for banks, insurance companies and market activities.

However further progress in relation to especially supervisory convergence is needed to promote the CMU, integration within the EU's internal market for financial services and to safeguard financial stability. Indeed, in order to fully benefit from the single rulebook, legal acts must be interpreted and applied in a convergent and consistent manner and compliance must be supervised in a consistent way. This is achieved through work on supervisory convergence across the EU. Consequently supervisory convergence is a key objective for the ESAs. The ESAs already play an important role in ensuring that National Competent Authorities take a converging approach to the application of rules for market players notably by developing supervisory handbooks, conducting peer review.

However, although the ESAs have the possibility to detect and investigate breaches to Union laws, gold plating, or shortcomings in the mitigation of systemic risks, they cannot act upon them effectively at present because they have no power of sanction if the National Competent Authorities concerned do not take the necessary correcting measures. And until now peer pressure appears to not have been sufficient and is not the recipe to move forward. Addressing this issue is essential for effectively implementing the Banking Union and the CMU.

Moreover, it will be important to also capture the ever growing benefits from technological developments such as FinTech, whilst addressing any possible risks arising in this context. ESAs have an important role to play in this respect.

The departure of the United Kingdom from the Single Market reinforces the need for a thorough reflection on how to further improve the supervisory capacities of the EU27 to promote an efficient, competitive and integrated financial system underpinned by financial stability and strong supervision.

A reflection is therefore needed on what possible changes to the current legal framework are needed to optimise the rules within which the ESAs operate in order to increase their ability to deliver on their mandates. This also corresponds to the approach taken in the de Larosière report on Financial Supervision in the European Union published in February 2009, which laid down the basis for the establishment of the three ESAs.

On 21 March 2017, the European Commission launched a public consultation on the operations of the European Supervisory Authorities (ESAs). The consultation was designed to gather evidence from all interested parties on the operations of the ESAs, focusing on a number of issues in the following four broad areas:

- Tasks and powers;
- Governance
- Supervisory architecture and
- Funding.

The results of this consultation should provide a basis for concrete and coherent action by way of a legislative initiative if required.

18:50 to 20:00 | Estonia Room

Closing session: **Economic and financial priorities for relaunching the Eurozone and the EU**

The European Union faces serious external and internal challenges: massive increases in migration flows, the threat of terrorism on the one hand, weak growth, demographic decline, the Brexit vote and high levels of indebtedness and unemployment of several Member States on the other hand.

The Member States of the Euro Area are affected, over and above these challenges, by the need to strengthen and deepen the EMU.

The objective of this plenary session is to define the priority actions in the economic and the financial areas that should be implemented to foster sustainable growth and relaunch the economic and financial integration of the euro area.

SPEAKERS

Chair

Thomas Wieser
Chairman of the Eurogroup Working Group and EFC
Council of the European Union

Public Authorities

Vladislav Goranov
Minister of Finance, Republic of Bulgaria

Roberto Gualtieri
MEP and Chair, ECON Committee, European Parliament

Yves Mersch
Member of the Executive Board, ECB

Edward Scicluna
Minister for Finance, Malta

Industry Representatives

Alban Aucoin
Head of Public Affairs, Crédit Agricole S.A.

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

Andrew McDowell
Vice-President, EIB

Expert

Sylvie Goulard

POINTS OF DISCUSSION

What are the priority actions required at national and EU levels to relaunch productive investment and to achieve stronger growth (3%, 4%) in Europe? What measures or mechanisms could further develop cross border investment in Europe?

What are the priority actions to restore trust between Member States, legislators, national regulators and more generally between home/host countries in order to improve the efficiency of the existing pillars of the Banking Union (SSM, SRM)?

Fostering economic convergence in all parts of the Union for encouraging sustainable growth

Demographic decline, weak levels of productivity gains and economic growth, high levels of indebtedness and unemployment in some key Member States, major economic discrepancies among core Member States are the main impediments to the fostering of sustainable growth in Europe.

In this perspective, ownership of the fiscal rules remains a key challenge in some Member States. A well-functioning monetary union needs a credible and sustainable fiscal framework. However, the policy convergence objectives between Member States have indeed proven partly illusory. Public debt ratios are very high in many euro area countries (e.g. France, Spain, Italy) and for some are still increasing. Additionally, many euro-area countries face deep-rooted structural weaknesses and imbalances.

A comparison between Germany and other EU countries such as France, Italy and Spain shows major discrepancies that need to be addressed for achieving stronger growth in these countries and restoring trust between Member States. Indeed the rules of the Stability and Growth Pact have not been enforced sufficiently vigorously. They should be simplified, more binding, predictable and effective:

Making the Banking Union a reality

To make progress, a pre-requisite is for all euro Member States to strengthen their fiscal positions and competitiveness but it is also essential to identify and address the concerns of host countries within the Banking Union if we want to improve the effectiveness of the existing pillars (SSM, SRM) of the Banking Union and complete it with an European Deposit Insurance Scheme (EDIS) and a permanent backstop to the Single Resolution Fund (see page 69).

Leveraging savings to develop cross-border investment in the EU

Most of the Member States of the EU are suffering from a decline in corporate and public investment since the crisis and a loss of production capacity in industry. At the same time, the Eurozone and the European Union are benefiting from a savings surplus. In 2015, the EU-28 current account surplus represented 161.6 billion euros, equivalent to 1.1% of the Gross Domestic Product (GDP). The balance of payment surplus for Germany on its own came in at over 8% of its GDP last year.

A monetary union is established so that the disappearance of the exchange risk within member countries can enable savings from all the monetary union countries to be used to finance the most effective investments within the monetary area. The disappearance of the mobility of capital between EU countries and the Eurozone since the EU sovereign debt crisis means that the surplus savings from countries with a balance of payment surplus (Germany, the Netherlands) are being lent to the rest of the world instead of being invested in Europe (peripheral countries, Eastern Europe, etc.). This is illustrated by the balance of payment surpluses for the Eurozone and the EU.

In principle, in a currency area, the elimination of currency risk allows capital (savings) to flow from the countries with higher per capita capital and therefore higher labour productivity and lower marginal productivity of capital (for example Germany, the Netherlands and France) to countries with lower per capita capital, lower labour productivity and higher marginal productivity of capital (for example Spain, Italy and Portugal). The 2011-2012 sovereign debt crisis halted the circulation of capital flows between Eurozone countries and the European Union. However, during the decade from 2000 to 2010, Eurozone capital mobility funded primarily inefficient investments: budget deficits in Greece, Italy and Portugal, real estate bubbles in Spain and Ireland. In other words, the financing of sustainable cross-border investment has never properly taken place following the creation of the euro, particularly as there is no effective banking or financial integration.

Despite the success of the implementation of the Juncker plan, cross border investment flows remain limited. The return to fiscal solvency in all the EU Member States would have a decisive impact on accelerating the development of cross-border investment. Making the Banking Union a reality, encouraging cross border equity flows and more generally accelerating the implementation of the Capital Market Union are also in this perspective, of the essence.

Encouraging cross-border equity flows

If Europe wants to benefit from an innovative economy and to develop private risk sharing, it must be financed through equity in a growing proportion. Europe is lagging behind in this area. The equity share of corporate financing is half as large as in the US-only 52% of GDP in the euro area, versus 120% in the US.

Different solutions have been proposed by the EU Commission to develop equity financing in the context of the CMU and of MiFID.

Increasing equity financing requires changes to taxation frameworks. Working notably on the debt equity bias is of paramount importance. The tax deductibility of interest payments in most corporate income tax systems coupled with no such measure for equity financing creates economic distortions and exacerbates leverage. Addressing the preferential tax treatment of debt over equity would encourage more equity investments and create a stronger equity base in companies. The recent legislative proposal of the EU Commission on the debt equity bias is an encouraging step forward.

Increasing the efficiency and consistency of insolvency frameworks across the EU can also promote cross-border equity finance. Indeed inefficient frameworks raise the cost of recuperating investments and reduce the willingness to provide equity capital. Furthermore, reducing divergence in corporate governance frameworks across Europe can lower barriers to cross-border equity investments.

The forthcoming revision of Solvency 2 also represents a key opportunity to suppress regulatory disincentives to long term financings. Other measures include the creation of MiFID growth markets, the review of prospectuses and the development of EU venture capital funds (EuVECA) to support the development of SME financing as well as efforts to improve investor information protection and financial literacy.

Brexit offers an opportunity to accelerate the implementation of the CMU

The departure of the largest non-Banking Union Member State is an opportunity for the EU27 to further develop and integrate their capital markets and increase the role they play in the financing of the EU economy. In this perspective it is essential to move towards a more efficient and consistent regulation and supervision of capital markets at the EU level which involves notably strengthening the powers of ESMA. Moreover the EU authorities have to monitor the transfer of financial activities from the City to the Continent in an appropriate way without creating financial stability or level playing field issues (e.g. avoiding letter box entities, encouraging an efficient organisation of financial markets in the EU and the Eurozone).

DAY 2 I 14 SEPTEMBER EVENING

21:00 to 22:30 | Estonia Room

Gala Dinner

KEYNOTE SPEECH

Toomas Tõniste
Minister of Finance, Estonia

Eurofi would like to thank very warmly
the Estonian EU Council Presidency
for their support to the organisation of this event

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Estonian Presidency
of the Council of the
European Union

NEXT EUROFI EVENT

The Eurofi High Level Seminar 2018

25, 26 & 27 April

Seminar organised in association
with the incoming Bulgarian EU Council Presidency

Sofia - **Bulgaria**

07:45 to 08:40 | Estonia Room

Exchange of views: **Deepening the EMU: when and how?**

2017 has seen Europe re-gain confidence both economically and politically. This favourable environment provides a window of opportunity for improving the resilience of the EU economy and tackling weaknesses in the euro area architecture.

The objective of this exchange of views is to define the key priorities and scenarios to deepening the Economic and Monetary Union. Speakers will also be invited to discuss their expected benefits and success factors.

SPEAKERS

Chair

Klaus Regling
Managing Director, ESM

Discussants

Mario Centeno
Minister of Finance, Portugal

Peter Kažimír
Minister of Finance, Slovak Republic

Bruno Le Maire
Minister of Economy, France

Petteri Orpo
Minister of Finance, Finland

POINTS OF DISCUSSION

What should be the key elements of deepening EMU and what should be its ambition?

How can recent proposals to deepen EMU contribute to improving effective economic policy convergence in all parts of the EU?

2017 has seen Europe re-gain confidence both economically and politically. This favourable environment provides a window of opportunity for improving the resilience of the EU economy and tackling weaknesses in the euro area architecture, which requires completing the Banking and Capital Markets Union, making Eurozone fiscal rules more binding and creating a fiscal capacity. Monetary policy has supported growth to a certain extent but it cannot be a substitute for structural reforms, which are essential in many Member States to improve the business climate, raise potential output growth and reduce unemployment.

Despite some economic and institutional progress, the euro area still faces structural weaknesses and imbalances, which need to be addressed. A macroeconomic stabilisation and convergence function (or a limited fiscal capacity) without necessarily creating additional permanent transfers and without debt mutualisation could be envisaged in the euro area to better absorb the costs of internal adjustments of a Member State in case of an asymmetric shock and to support national structural reforms, provided that minimum economic convergence is achieved. In any case, developing ownership and incentivizing reforms remains a short run key priority.

Three lines of action to deepen the EMU

Overall, there could be three lines of action, the aim of which is to enshrine a credible process of policy convergence by either: 1) implementing the rules more vigorously, helping to restore cross-border capital flows; 2) smoothing internal adjustments of Member States with a stabilisation function notably in view of asymmetric shocks; or, 3) considering how an EU safe asset could be developed in order to further break the sovereign-bank loop.

Reinforcing the economic and fiscal rules to make them more binding remains a key priority.

Only domestic structural reforms can solve structural weaknesses in Member States, improve the business climate, raise output and productivity growth and reduce competitiveness problems and recourse to debt. The European dimension can reinforce national efforts. Structural reforms should indeed be coordinated at the EU level notably because a number of aspects of these measures have cross-border effects. Incentivising compliance with existing rules could be done for instance with a mutually-agreed contract, the costs of enforcement of which would be smoothed by financial support. According to this line of action, a federal fiscal incentive would be provided to countries that really embark on credible structural reforms: more fiscal transfers with more conditionality would be the idea.

The symmetry of economic adjustments within the euro area should also be a priority focus to prevent long-run excessive balance of payment surpluses or deficits. However, the rollout of an economic expansion programme would benefit Germany's key trading partners provided that their industrial base could cope with this increase in demand.

A macroeconomic stabilisation function (or a limited fiscal capacity) without necessarily creating additional permanent transfers and without debt mutualisation could be envisaged to better absorb the costs of internal adjustments of a Member State in case of an asymmetric shock.

Such a macroeconomic stabilisation function or limited fiscal capacity could take the form of a supplementary mechanism (for example an unemployment insurance scheme or a Eurozone mechanism to support business investments in a specific sector affected by exceptional cyclical difficulties) or a rainy day fund similar to existing examples in the US.

It would be used for instance to finance cyclical (and not structural) unemployment insurance expenses related to exceptional economic shocks, when the national unemployment rates exceed a threshold.

More generally the role of this fiscal capacity would be to provide enhanced risk-sharing without creating permanent transfers or debt mutualisation. The size of this fiscal capacity would amount to around 1-2% area GDP according to the recent proposals made. It should not overburden Member States' public finances since it could be accumulated over a number of years. A more detailed business case of the advantages of this shared mechanism compared to the present situation however still needs to be established.

It is also proposed that the stabilization and convergence function must be coupled with a stronger enforcement of fiscal rules to make sure public finances remain sustainable.

The implementation could be achievable in the short- to medium-term as it would not necessarily require changes in the EU Treaties. The framework should be such that moral-hazard and free-riding behaviour should be avoided making the proposal broadly acceptable by all parties.

Some also propose a more ambitious option: a European finance minister empowered with a common budget. He would chair the Eurogroup and could also chair the Economic and Financial Affairs Council (ECOFIN) according to the ideas of the EU Commission . With the support of a Eurozone Treasury, he would coordinate national fiscal policies and would be empowered with a common budget.

Such developments would require a change to EU treaties and abandonment of a certain degree of fiscal sovereignty.

A sovereign risk sharing mechanism (EU safe asset) is also proposed to further break the sovereign-bank loop, restore and develop cross-border capital flows. This assessment is based on the idea that a monetary union such as the euro area with free capital mobility and a national 'safe haven' asset will see investors from the safe country searching for a higher yield across the risky member countries in quiet times while they will quickly return to the safety of their home country when it appears as if the negative risks could materialise. The sharp reversal of capital flows triggered by a major shift in market sentiment back to safe countries could each time trigger financial fragmentation, as seen during the 2011-2012 crisis.

Several proposals of 'safe assets' have been put forward with different design features – ranging from full to partial common issuance, some based on mutualisation and others entailing no joint liabilities (European Safe Bonds (ESBies)). However, developing a safe asset for the euro area raises a number of complex legal, political and institutional questions. Additionally, mutualizing part of sovereign risk requires fiscal solvency and compliance with the fiscal rules in the first place.

08:40 to 10:00 | Estonia Room

EU CCP systemic issues

The objective of this roundtable is to discuss the proposals made by the EU Commission in the context of the EMIR review for amending the supervisory regime for EU and third-country CCPs, the potential impacts of these measures and their feasibility and conditions of success.

SPEAKERS

Chair

Yves Mersch
Member of the Executive Board, ECB

Public Authorities

David Bailey
Director, Financial Markets Infrastructure Directorate, Bank of England

Jochen Metzger
Director General Payments and Settlement Systems, Deutsche Bundesbank

Mario Nava
Director, Financial System Surveillance and Crisis Management Directorate, DG FISMA, European Commission

Robert Ophèle
President, AMF

Verena Ross
Executive Director, ESMA

Jakob von Weizsäcker
MEP, ECON Committee, European Parliament

Industry Representatives

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

Tim Grange
Director of Regulatory Policy, ICE Clear Europe

Alexandra Hachmeister
Chief Regulatory Officer, Deutsche Börse Group

POINTS OF DISCUSSION

Will the EMIR review proposal allow an improved supervision of EU cross-border CCPs in the context of a growing concentration of credit risks in these infrastructures and of developing cross-border activity? Does the EMIR proposal raise any issues in terms of implementation or feasibility regarding EU CCPs?

Does the EMIR review proposal provide an appropriate approach for addressing the issues raised by third-country CCPs that are systemically important for the EU and Eurozone? What are the conditions of success of dual supervision in this case?

Are the EMIR proposals regarding third-country CCPs deemed to be "substantially systemically important" for the EU appropriate and workable? What may be the potential benefits and downsides of the requirement for such CCPs to be established in the Union? Can the specific concerns raised by Brexit regarding UK-based CCPs that clear significant amounts of euro-denominated transactions be tackled with the EMIR review proposal?

Progress made and potential shortcomings regarding the supervision of cross-border CCPs

The implementation of EMIR requirements in 2015 has led to a rapid expansion in the scale and scope of central clearing in the EU and this trend is likely to continue. At the same time the CCP market remains very concentrated and CCPs are highly interconnected with other market participants, making it essential to ensure the safety of these infrastructures.

EMIR provides measures for ensuring the resilience of CCPs and has fostered stronger supervisory convergence with the establishment of supervisory colleges for CCPs authorized in the EU and with the recognition by ESMA of third-country CCPs allowed to provide their services across the EU. These requirements are due to be completed with a recovery and resolution (R&R) framework for CCPs recently proposed by the EU Commission (EC). Significant progress is therefore being made regarding the mitigation of systemic risks associated with CCPs, but different assessments have however shown potential shortcomings notably in the supervision of EU and third-country cross-border CCPs.

First, while supervisory colleges enable information sharing among the different supervisors concerned by a given CCP, main decisions are ultimately taken by the national supervisory authority where the CCP is established, which raises issues in a cross-border context. Moreover, experience has shown that differences across domestic supervisory approaches persist and that CCP supervisory processes, which involve a wide range of authorities (market authorities, central banks, bank supervisors), are complex to manage in the current set-up. In addition central banks may be insufficiently involved in decision-making and risk assessment processes at present concerning CCPs, notably for them to be able to manage all the implications of CCP actions with regard to monetary policy.

Secondly, while a significant volume of financial instruments denominated in EU currencies are cleared by recognized CCPs based in non-EU countries, the current arrangements do not allow the EU authorities to monitor the related risks appropriately after recognition. If third-country CCP rules or supervisory arrangements change, there is at present no mechanism to ensure that EU authorities are informed automatically and can take appropriate measures if this affects the resilience of the CCPs concerned. These problems 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. This change creates potential uncertainty and has made it necessary for the EU authorities to reconsider CCP supervisory arrangements.

Main proposals of the EMIR review regarding the supervision of EU and third-country CCPs

The objective of the EC proposal, which is currently being discussed in the EU Parliament and Council in parallel with the CCP R&R framework, is to ensure the safety of cross-border CCPs operating in the EU and to avoid third-country CCPs having adverse impacts on the EU's currencies.

Regarding EU cross-border CCPs, the EMIR review proposes a more pan-European approach to their supervision with the establishment of a so-called "CCP Executive Session" within ESMA responsible for chairing existing CCP colleges, with the objective of improving the consistency of supervision and further streamlining it. This approach also aims to foster a closer cooperation between supervisory authorities and central banks issuing EU currencies and would provide the ECB and relevant central banks of issue with binding decision powers. A recommendation was moreover made in June by the ECB Governing Council to amend ECB statutes in order to allow it to carry out its role as central bank of issue under the EMIR review proposal.

The EMIR review also proposes to reinforce the supervisory framework for systemically important third-country CCPs wishing to provide services in the EU. Third-country CCPs would be classified in two groups: 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 be subject to stricter requirements (i.e. compliance with EMIR prudential requirements; collateral or liquidity requirements set by the relevant EU central banks) while taking into account their compliance with the comparable third-country rules. Tier 2 CCPs would moreover have the obligation to provide ESMA with all relevant information and enable on-site inspections resulting in their de facto dual supervision by both the EU and the home authorities.

In addition, a limited number of third-country CCPs may be defined as 'substantially systemically important CCPs' for the EU or one of its Member States (according to criteria that are yet to be set). In this case the CCP would not be recognized and would have to establish itself and be authorized in the EU.

Potential impacts and issues to be further considered

The possible practical difficulty of a dual supervision of systemically important third-country CCPs (risk of diverging approaches or additional complexity...) and related cost impacts have been stressed. The fact that supervision alone cannot guarantee the resilience of a CCP and that additional mechanisms are needed for the appropriate enforcement of regulatory and prudential requirements has also been pointed out.

The criteria that may be used for determining the systemicity of third-country CCPs in a sufficiently objective way is another area where clarification is called for, as well as the decision-making process that could be used and the role that different EU authorities should play in this regard.

The recommendation that however causes the most controversy is the possible obligation to locate in the EU some third-country CCPs that would be deemed "substantially systemically important". Many observers indeed warn that such a requirement could lead to a fragmentation of liquidity and to losses in margin efficiencies, potentially reducing the benefit of central clearing and increasing costs for users, and that it could open the door to further "currency nationalization". The operational risks entailed by the possible relocation of CCP activities have also been stressed. Some moreover suggest that the concerns raised by euro-denominated clearing happening outside the EU could be appropriately addressed by effective dual-supervision and the enforcement of common standards, similarly to the approach used e.g. for CCPs clearing large volumes of US-dollar and AUS-dollar transactions outside their home country.

08:40 to 10:00 | Tallinn Room

Systemic risks and resolution in the insurance sector

The objectives of the session are to clarify the objectives and features of a global systemic risk framework for insurance companies notably appropriately factoring in the specificities of the sector and the current economic and monetary context.

The need for and shape of an activity based approach for assessing potential systemically risky activities will be evoked, as will be the contribution of recovery and resolution arrangements specific to insurance groups, to the improvement of the stability of the financial system.

SPEAKERS

Chair

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

Public Authorities

Nathalie Berger
Head of Insurance and Pensions Unit, DG FISMA, European Commission

Sandrine Lemery
First Deputy Secretary General, ACPR

Theodore Nickel
Commissioner, Wisconsin Office of the Commissioner of Insurance & President, NAIC

Industry Representatives

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

Nina Arquint
Head of Group Qualitative Risk Management, Swiss Re

Edite Ligere
Barrister, Vice President, Global Regulatory Policy, Global Government Relations, MetLife Inc.

POINTS OF DISCUSSION

What are the potential impacts of the low for long monetary context on the stability of the insurance sector in the EU? What should be the key objectives of a revision of the global systemic risk framework for insurance companies?

What are the key areas of work for achieving an effective improvement of the global systemic risk assessment methodology and of HLAs notably in the context of the new ICS 2.0? What are the main consistency issues raised by ICS and Solvency II? What should be the key objectives and success factors of the definition of an appropriate activity based approach for assessing potential systemically risky activities in the insurance sector?

What are the specificities of insurance undertakings regarding recovery and resolution arrangements? What lessons can be learned from existing RRP which could contribute to evaluating and improving the whole international systemic risk framework?

The role of non-bank financial intermediation requires addressing related specific financial stability issues

Non-bank financial intermediation, including that by insurance companies and pension funds, has grown in several advanced economies (particularly in Europe) and developing economies since the crisis, and now represents more than 40% of total financial system assets. Growth was more rapid in developing economies, but mostly from a low base given often bank-centric pre-existing systems. This underscores the importance of addressing appropriately financial stability issues potentially posed by the insurance sector.

Nevertheless, since 2010, the IAIS has been developing a process to identify globally active insurance groups the distress, or failure of which would cause significant disruption to the global financial system (the so called globally systemically important insurers (G-SIIs)).

In addition, the IAIS has developed a framework for addressing related systemic and moral hazard risks. This framework seeks more intensive and co-ordinated supervision, higher loss absorbency (HLA) capacities in order to internalise some of the costs to the overall economy of their potential failure. From 2019, G-SIIs will be expected to hold regulatory capital that is not less than the total required by the sum of the BCR and HLA requirements.

An activities-based approach for assessing the systemicity of the insurance sector will complement the regulatory approach

Two important factors, which are Non Traditional Non Insurance (NTNI) activities and Interconnectedness, have long been considered by the IAIS for assessing the systemic importance of insurers. However, the IAIS recognised that there is some overlap between these two categories. Consequently, the IAIS decided to replace the NTNI product approach with an assessment of insurance product features, which may expose insurer companies and possibly the insurance sector to substantial macroeconomic or liquidity risks, and asset liquidation.

Consequently, as a complement to the methodology for designating individual firms as global systemically important insurers (G-SII), as part of the three-year review cycle which is scheduled to conclude in 2019, the IAIS is currently developing an activities-based approach for assessing the systemicity of the insurance sector.

Effective resolution approaches specific to the insurance sector are essential to preserve financial stability

Meanwhile, the FSB is also seeking to facilitate orderly resolution. In this perspective in June 2016, the FSB released an ambitious paper "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers".

The Guidance issued by the FSB defines the general guide lines and objectives to be determined – based on a strategic analysis of business segments, critical functions - for a given insurance group, the preferred resolution strategy which notably identifies relevant points of entry into resolution, in order to reduce the cost and impact of the resolution and to achieve the operational continuity for possibly shared services. These resolution strategies have to take into account the nature and location of loss absorbing capacities, the liquidity of the group and its funding sources, and possibly existing policyholder protection schemes.

Naturally specific attention is paid to the cross-border dimensions of a resolution in order to define the appropriate forms of cooperation that the relevant resolution tools would require. These mean establishing Crisis Management Groups with precise objectives and processes for cooperation – e.g. roles and responsibilities, specific processes for information-sharing before and during a crisis, which provide the ability to access to relevant information and data - and formalising firm specific Cooperation Agreements (CoAgs).

Defining such resolution approaches poses many challenges

One of them is the balancing of two different objectives. These are the protection of policyholders together with financial stability. In this respect, although an insurer is not considered as systemically important it could have a wider impact on some parts of the economy and, particularly, on the affected policyholders if it failed. This would be compounded if a number of insurers in a given market were to fail simultaneously.

One essential question is also the appropriateness of limiting the scope of resolution arrangement and frameworks only to systemic relevant insurers. Another is question of the potential systemic threat of reinsurers, the size of which is reduced compared with that of the insurance market. They operate bilaterally with no inter insurance market similar to the interbank market, and are not able to create material contagion channels.

Such questions will also be raised by the actual developments related to the so-called activity based approach which will remind us again of the specificities of the insurance sector, which are notably encouraged by prudential regulations not only to avoid maturity transformation but rather to match assets and liabilities. This explains why supervisors permanently monitor and require from insurance undertakings prompt corrective actions when they have to face financial deterioration. This also explains why in most cases a run on an insurer is not likely, and why run-offs and portfolio transfers are the most preferred and frequent options for resolving insurance failures.

Establishing the point of viability of an insurer, which is linked to the decision as to when a resolution authority should act, is also a difficulty to be addressed, notably because this might be constrained by national legislation.

More generally, making consistent all these frameworks – e.g. assessment methodology, Basic core requirements, HLA, Key Attributes, etc. not mentioning the ISDA 2015 Universal Resolution Stay Protocol, which enables parties to amend the terms of their Protocol Covered Agreements to contractually recognize the cross-border application of special resolution regimes applicable to certain financial companies, is challenging. As is avoiding unintended regulatory piling ups and overlaps.

Finally, making these preferred resolution strategies operational, will require significant efforts from both the profession and supervisors. Currently, according to the FSB, the implementation of international resolution provisions is less advanced in the insurance sector. The Stability Board considers notably that while CMGs have been established and recovery plans adopted for most G-SIIs, the absence of insurance resolution regimes with a broad range of powers and tools in several G-SII home jurisdictions remains an important impediment to resolvability.

10:00 to 11:10 | Estonia Room

Resolution of banking groups

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.

In this context, 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 objective of this session is to draw the lessons from these recent decisions and to discuss the remaining issues related to the definition and the calibration of the MREL framework and to the establishment of the intermediate EU parent undertaking for third-country groups which has also been proposed by the Commission in its November 2016 legislative proposal.

SPEAKERS

Chair

Elke König
Chair, SRB

Public Authorities

Gunnar Hökmark
MEP, ECON Committee, European Parliament

Felix Hufeld
President, BaFin

Enzo Serata
Director of the Resolution and Crisis Management Unit, Banca d'Italia

Maria Velentza
Director, Markets and Cases III, Financial Services, DG COMP, European Commission

Industry Representatives

Julie Galbo
Group Chief Risk Officer and Head of Group Risk Management and Control, Nordea Bank AB

Tracey McDermott
Group Head Corporate, Public and Regulatory Affairs, Standard Chartered Plc

Thomas Pohl
Head Governmental Affairs International, UBS

Concluding remarks

Arthur J. Murton
Director, Office of Complex Financial Institutions, FDIC

POINTS OF DISCUSSION

What have we learnt from the resolution of Banco Popular, the "precautionary recapitalization" of Banca Monte dei Paschi di Siena and the liquidation of BP Vicenza and Veneto Banca?

What progress has been made on calibrating MREL, both 'internal' and 'external'?

What are the expected benefits and the related challenges related to the Intermediate EU parent undertaking?

St. Olaf’s Church, Tallinn

10:00 to 11:10 **Tallinn Room**

Are market-based finance risks under control?

The objective of this roundtable is to take stock of the latest developments at the global and EU levels regarding the identification and mitigation of systemic risks associated with market based finance activities. The panel will also discuss any residual or emerging risks and the possible additional measures that may be needed for monitoring and mitigating them.

SPEAKERS

Chair

Gaston Gelos
Chief of Monetary and Macroprudential Policy Division, IMF

Public Authorities

Markus Ferber
MEP, First Vice-Chair, ECON Committee, European Parliament

Mario Nava
Director, Financial System Surveillance and Crisis Management, DG FISMA, European Commission

Jean-Paul Servais
Vice Chairman, IOSCO and Chairman, IFRS Foundation Monitoring Board and Chair of ESMA's Financial Innovation Standing Committee and Chairman, FSMA

Industry Representatives

Frédéric Bompaire
Head of Public Affairs, Finance and Strategy, Amundi

Rodney Comegys
Global Head of Investment Risk, Vanguard

Joanna Cound
Head of Public Policy, EMEA, BlackRock

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

POINTS OF DISCUSSION

Will on-going initiatives at the EU and global levels allow the tackling of residual vulnerabilities from asset management activities regarding e.g. liquidity mismatches and leverage? What additional tools may be needed? Are there any pending issues to be addressed regarding the implementation of the EU MMF framework?

Are there any other emerging or remaining vulnerabilities related to market based finance that need tackling? Are existing frameworks and supervisory approaches sufficient for appropriately monitoring and mitigating these risks? Could Brexit potentially increase vulnerabilities from the market based finance sector?

What are the prospects of extending macroprudential policies and instruments to market based finance? How may they be implemented?

Many policies address potential stability risks associated with market based finance

Since the financial crisis, additional policies have been introduced at the international and regional levels to address financial stability risks from shadow banking and transform it into "resilient market-based finance" as defined by the FSB. Steps have been taken to address banks' involvement in shadow banking activities (e.g. bank prudential and consolidation rules). Measures to address liquidity, maturity mismatch and leverage risks related to market-based finance activities have been completed e.g. with MMF and SFT regulations. Rules have also been adopted notably in the EU to enhance the transparency and standardization of securitization products. Monitoring and oversight frameworks to assess financial stability risks have moreover been established.

In terms of volumes several shadow banking activities have shrunk significantly since the crisis according to the FSB (e.g. broker dealers' intermediation dependent on short term financing, securitization-based credit intermediation…), while assets held by collective investment vehicles "with features making them susceptible to runs" (e.g. fixed income and mixed investment funds, MMFs, credit hedge funds…) have grown significantly and constitute 2/3 of the so-called "narrow measure of shadow banking" up from 1/3 immediately before the crisis.

The main focus at present is on asset management activities and strengthening system-wide oversight

The strong growth of the asset management sector is welcomed for its capacity to diversify financing sources, in line with CMU objectives. 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 in less actively traded securities, creating potential liquidity and contagion risks.

The FSB and IOSCO led consultations in 2015 on methodologies for identifying Non-Bank Non-Insurance (NBNI) G-SIFIs including potentially some asset management entities, but decided to refocus primarily on vulnerabilities at the activities level. The approach regarding NBNI G-SIFI risk is however due to be finalised by 2019 once the work on residual structural vulnerabilities stemming from asset management activities has been completed. 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.

In Europe, many of these issues, notably related to liquidity mismatch and leverage, are already covered in EU legislations (UCITS, AIFMD, MMFR, SFTR), on which possible future policy steps should build. Moreover liquidity management tools (e.g. gates, side-pockets, suspension of redemptions) are available in many EU jurisdictions and on-going supervisory convergence efforts by ESMA should help to ensure their broad consistency.

The FSB has not identified other new financial stability risks from market-based finance that would warrant additional regulatory action but has made recommendations to enhance system-wide oversight going forward which include: (1) establishing a systematic process for assessing financial stability risks from shadow banking and ensuring that any entities / activities that could pose material financial stability risks are brought within the regulatory perimeter; (2) addressing identified gaps in risk-related data; (3) removing impediments to cooperation and information-sharing between authorities and (4) improving information-sharing on emerging risks and data granularity on assets and liabilities and cross-border interconnectedness.

Some new areas are also being investigated by the authorities. ETFs are one of them due to their exponential growth and the increasing variety of fund ranges. Risks potentially raised by ETFs have been assessed (liquidity transformation, possible difficulties to track ownership and understand pricing…) but the need for specific policy measures has not been identified so far except close monitoring particularly in periods of market stress. In the EU the vast majority of ETFs are indeed structured as UCITS and they still represent a limited share of open-ended mutual fund assets (around 5%).

Loan funds, which have been allowed in certain EU jurisdictions, are also being assessed. In some cases they are subject to specific rules but generally regulators consider that existing fund rules are sufficient for monitoring the risks they pose, due to their limited development so far.

The use of macroprudential policies and tools is also being considered

The lack of systemic perspective in many market-based finance rules, possibly hindering their ability to prevent the build-up of sector-wide risks, has been pointed out by regulators. Enhanced information on liquidity in stressed conditions and on leverage would help to better monitor risks. Proposals are also being made to improve stress testing with the establishment of guidelines by some domestic regulators for the testing of individual funds and plans by ESMA to develop an EU approach to investment fund stress testing. Industry players however stress that these requirements should be tailored to the specificities of asset management activities, notably concerning unlevered funds.

The use of wider macro-prudential policies (i.e. tools designed to anticipate and mitigate systemic risks for a wide scope of vehicles e.g. investment funds, pension funds, insurance companies and the related asset owners), is being considered. This however raises several issues that need to be clarified in terms of data availability, behaviour modelling of diverse market players and clients and differentiation between market risks and systemic risks. Moreover the possible shortcomings of limiting system-wide stress testing to a subset of the market where data is more readily accessible have also been emphasized (e.g. mutual funds which only represent around 30% of investable assets and are not a homogeneous sector).

Macro-prudential tools such as leverage and liquidity requirements applied as "blanket policies" across market sectors or multiple players are also being considered. Although the use of some of these tools in exceptional circumstances is already possible in many EU jurisdictions and regulations, they have generally not been designed in a macro-prudential perspective, according to the ESRB. Some industry representatives however stress the potential procyclical and market distortion effects of these tools, advocating instead risk management and regulation at the fund and activities level.

11:15 to 11:55 | **Estonia Room**

Exchange of views: **Banking Union: how to make existing pillars more effective?**

Major steps have been taken at unprecedented speed over the past years to establish the Banking Union in order to break the vicious circle between banks and sovereigns and reverse the fragmentation of financial markets. After a comprehensive assessment of all significant credit institutions in the Banking Union, the Single Supervisory Mechanism (SSM) was fully established in 2014 and the Single Resolution Mechanism (SRM) became operational in 2016. However EU cross-border banking groups operate in a fragmented banking market and there is still a significant home bias in the EU regulatory and supervisory framework.

The objective of this plenary session is to identify the causes of this fragmentation. Speakers will be invited to define the priorities to make the existing pillars of the Banking Union (SSM, SRM) more efficient and the necessary conditions for its completion.

SPEAKERS

Chair

Andrea Enria
Chairperson, EBA

Public Authorities

Esther de Lange
MEP, ECON Committee, European Parliament

Danuta Maria Hübner
MEP, ECON Committee, European Parliament

Elke König
Chair, SRB

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

François Villeroy de Galhau
Governor, Banque de France

Industry Representative

José Manuel González-Páramo
Executive Board Member, BBVA

POINTS OF DISCUSSION

How to explain the main fragmentation regulatory issues - local capital and liquidity cushions, additional capital charges for systemically important banks regarding their cross-border Eurozone exposures, macro-prudential framework based on national decisions, internal MREL in the euro area...- in the EU banking sector?

How to address the remaining fragmentation issues and what are the policy priorities within the Banking Union project

EU cross-border banking groups operate in a fragmented banking market

Despite the elimination of more than 100 National Optional Discretions (NOD) by the SSM, the single banking market remains fragmented. The euro area is not treated as a single jurisdiction for the purposes of bank regulation. There is still significant national discretion in implementing rules. Liquidity remains national (cross-border groups are submitted to liquidity requirements in each of their subsidiaries located in the euro area). Capital buffers are still used by national authorities notably to address macro prudential risks. And the lack of single-jurisdiction status may impose additional capital charges on euro area banks. Symptomatic is the treatment of additional capital charges for systemically important banks related to cross-border a euro area exposure, which are still considered as international exposures from a regulatory perspective and which hinders cross border consolidation. This discretion increases banks 'cost of capital and funding and subsequently reduce private investors' appetite to invest in euro area banks.

According to certain observers, this home bias within the EU regulatory and supervisory framework is encouraged by the fact that the role played by national supervisory authorities in terms of governance for the SSM, SRB and EBA is too important. It will no doubt be necessary to consider modifying the mandate for local supervisors (currently focused in particular on protection for local depositors and not groups) and developing the European focus for the governance of these European authorities in order to reduce the regulatory fragmentation that characterises the single banking market.

Regulatory reform should 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 given thus a solid base for group solidarity as the basis for consolidation. Indeed while supervisory decisions are taken at the European level, the consequences of potential bank failures are still predominantly national. Insolvency law in particular remains national. National considerations therefore continue to affect supervisory decisions. Therefore more regulatory reform should move forward to secure the Eurozone's recognition as a single jurisdiction.

Moreover the process of disposing of Non-Performing Loans is moving too slowly in some jurisdictions and is challenging the implementation of the new EU resolution framework, notably in Italy.

In such a context, cross-border banking remains the exception rather than the rule and banks have a much stronger home bias than before the crisis. Finally, many banks in the EU continue to receive a significant exposure to their domestic sovereigns.

Need to remove home bias in the EU regulatory and supervisory framework

In a monetary union the banking landscape cannot be made up of a collection of standalone national banking systems. And in an environment where bank profitability is weak, and where macroeconomic stabilization policies are already at full throttle, the benefits of such cross-border integration – efficiency and risk-sharing – are even more in demand. Thus a true Banking Union needs to be completed in a reasonable period of time. And that includes, establishing a European Deposit Insurance Scheme that can ensure the fungibility of insured bank money across all parts of the monetary union and a permanent backstop for the Single Resolution Fund. But this requires trust and confidence between national supervisory authorities and among political leaders. And such confidence can only be achieved when legacy issues are effectively addressed and economic convergence between all Member States becomes a reality.

Responding to host countries' concerns for improving the effectiveness of the Banking Union's existing pillars (SSM, SRM)

It is also essential to identify and address the concerns of host countries within the Banking Union if we want to improve the effectiveness of the Banking Union's existing pillars (SSM, SRM).

For financing their national economies, the vast majority of the Member States (Belgium, Luxembourg, Baltic States, Slovakia, Poland, Hungary, etc.) are essentially dependent on subsidiaries of banks whose headquarters are located in other countries within the Banking Union (Austria, France, Italy, Finland, etc.) or the EU (Sweden, Denmark). These local subsidiaries have a central and essential position for financing their economies.

Political leaders in these host countries are concerned that if one of these local banks was to leave or one of these banking groups was to experience difficulties, this might penalise their national economy or cause difficulties for their deposit guarantee system. In this respect, these countries are concerned about the slow pace that characterises the resolution of non-performing loans in certain Union countries and that makes them doubt the effectiveness of the EU crisis management framework.

These host countries are also concerned about the lack of economic convergence between Germany on the one hand and certain leading Union countries (France, Italy, Spain) and the strengthening of the sovereign bank links that can be seen in many Banking Union countries. These weaknesses are compounding the risk of banking groups withdrawing from these host countries and encouraging these states to set up local regulatory constraints (capital, liquidity, pillar 2 requirements, internal MREL).

These concerns are worth clarifying, but seem to explain the host countries' attitude to the ECOFIN Council (see discussions underway regarding CRR/CRD, BRRD, etc.). Indeed, they refuse to accept that the regulatory constraints for banking groups can be defined essentially at a consolidated level, while calling for a series of regulatory constraints to be set at a local level for primary legislation.

Adjusting the governance of EU and National Supervisory Authorities

Once all these concerns expressed by the host countries have been clarified and understood, European leaders will need to respond to them by adjusting the roles and missions of the national authorities responsible for supervising cross-border groups in order to provide a guarantee for each Member State that none of the supervisors will favour their own banking system and their own depositors. This is expected to result in an increasingly European framework for the operations and governance of European authorities, similar to what is already in place for the Monetary Union and the ECB. Such an alignment will also need to be considered for home supervisors located outside the Banking Union.

These developments will lead to the creation of the EDIS and to a permanent backstop for the Single Resolution Fund.

11:55 to 12:30 | Estonia Room

Exchange of views: **Challenges and conditions for a normalisation of EU monetary policy**

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 they 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 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

David Wright
President, EUROFI

Public Authorities

Klaas Knot
President and Member of the ECB Governing Council, De Nederlandsche Bank

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

Ewald Nowotny
Governor, Oesterreichische Nationalbank

Industry Representative

Jordi Gual
Chairman, CaixaBank

POINTS OF DISCUSSION

What is the current balance of positives and negatives regarding the ongoing ultra-accommodative monetary policy of the ECB?

Could prolonged monetary policy easing increase financial vulnerability?

Long term interest rates are firming up moderately but the trend is being driven by the improved momentum of the world economy. In integrated financial markets, such market forces have an impact on long term rates in Europe and this increases the debt service burden of EU Member States. Is ending the ECB's quantitative easing feasible in the current economic context (e.g. given the level of indebtedness of some Member states...)? What are the policy precautions that need to be taken?

BACKGROUND PREPARED BY EUROFI

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, alongside the conventional ones, in pursuit of its price stability objective. Together, these measures have proved effective in preventing a period of disinflation from spiralling into one of deflation.

The easing of financing conditions has contributed to a revival of bank credit the ECB and supported domestic demand. The non-standard measures of the ECB have 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. While the outstanding bank credit to non-financial enterprises and reduced from 2012 to 2015, we see an upward movement since 2015.

In addition, low rates have delivered significant ease to the debt refinancing of governments which may have contributed to short-run political stability in some countries. Thereby, the lasting low interest rate environment has provided additional space for 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 grow out of synch with real economic developments. This can create imbalances, which might become unsustainable once monetary conditions are normalized. Furthermore, market discipline has been reduced by the abundant availability of liquidity. This can distort the risk compass of investors and can contribute to a misallocation of resources and a higher frequency of bubbles and financial instability episodes.

Global indebtedness remains a major problem. 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). This debt overhang represents a financial risk on the stability of the system and poses 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.

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

How to move forward?

The normalization process should be different from a traditional cycle of interest rate hikes. Central banks currently have a remarkable presence in markets, owing to the implementation of unconventional tools. As a result, policymakers face the 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 high, at around 90% of GDP in the euro area. Some core countries of the euro area are currently running 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 the pressure: a rise in interest rates can have, indeed, a significant impact on budgetary outlays.

It appears that 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 other words ECB interventions in the government bond markets have partially removed the market pressure on governments.

We touch here on a paradox of the European Monetary Policy:

- By easing financial costs it allows deficit countries to postpone structural reforms and borrow more,
- And this makes a change (ie "normalization" of monetary policy) all the more problematic since the budgetary cost of a tightening of monetary policy could be significant.

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

Moreover, inflation is also influenced by structural factors (e.g. oil prices, potential growth, supply constraints) that cannot be corrected by monetary policy.

Too much responsibility may have been put on the shoulders of Central Bankers over the years

In old days, Central Banks used to fight against inflation by raising short term interest rates and monitoring credit expansion. Today they have become responsible for the whole outcome of economic cycles.

Their mission is to ensure maximum growth over the cycle by forcing long term rates to fall, and remain low. This has enticed the ECB into hyperactive monetary policies. It seems that such policies – whatever their short term advantages – bear long term costs that are significant, notably on the stability of financial markets as well as on the profitability of the banking sector. The longer the period of exceptionally low rates, the stronger the impact on the interest rate bank margin.

Time has come to overhaul such policies and to correct the mistaken view that money creation can, by itself, resolve structural economic problems while they can only be addressed by structural reforms. Public debt will fall much faster if growth – boosted by such reforms – is higher than the present forecasts.

Setting aside ammunition for any future slowdown

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 is not too distant a future it seems that policy makers may have not sufficiently prepared for such a turnaround. Budgetary and monetary policies should normalize in good times in order to offer countercyclical cushions when expansion weakens.

12:30 to 12:40 | Estonia Room

Closing remarks: **Meeting the challenges of the Eurozone and the EU**

SPEAKER

Steve H. Hanke
Professor of Applied Economics,
The Johns Hopkins University

FOLLOWING EUROFI EVENT

The Eurofi Financial Forum 2018

5, 6 & 7 September

Vienna - **Austria**

Alexander Nevsky Cathedral, Tallinn

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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.

EUROFI MEMBERS

The membership of Eurofi comprises many leading global and European financial institutions from different sectors of the industry (banking, insurance, market infrastructures, asset management, credit rating agencies...).

NEXT EUROFI EVENTS

25, 26 & 27 April 2018
Sofia - **Bulgaria**

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

April 2019
Bucharest - **Romania**

EUROFI MEMBERS

Allianz, Amundi Asset Management, AXA, Bank of America Merrill Lynch, Barclays, BBVA, BlackRock, BME Spanish Exchanges, BNP Paribas, BNY Mellon, Groupe BPCE, Caceis Investor Services, Groupe Caisse des Dépôts, CaixaBank, CNP Assurances, Crédit Agricole S.A., Credit Suisse, Deka, Deutsche Bank, Deutsche Börse Group, DNB, DTCC, Euroclear, European Investment Bank, Euronext, Federated, Fidelity International, Finanzgruppe, Goldman Sachs, HSBC, ICE, ICO, ING, J.P.Morgan, KPMG, La Banque Postale, MetLife, Moody's, Morgan Stanley, MUFG, Nasdaq, Nykredit, pwc, Santander, Societe Generale, Standard Chartered, S&P Global, State Street, SWIFT, Swiss Re, Tradition, UniCredit, UBS, Western Union, Zurich

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