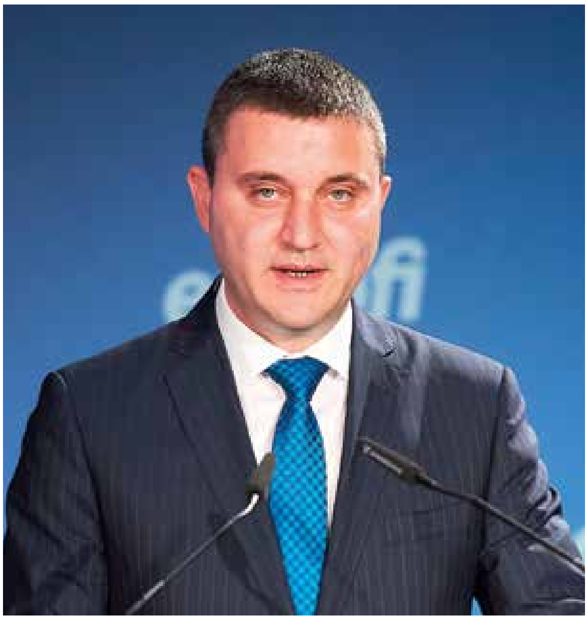
Sofia 2018

SPEECHES

Full transcript

Vladislav Goranov

Minister of Finance of the Republic of Bulgaria



Opening Remarks

Thank you, Didier. In Bulgaria, we say 'dobre doshli', which means 'welcome'. Welcome, everybody, to Sofia. I have the pleasure of opening this distinguished event, organised by our colleagues and friends from Eurofi. The High Level Seminar is also part of the official programme of the Bulgarian Presidency of the Council of the EU. My colleagues have written that 117 high level speakers are attending from European institutions and agencies, but I have realised that there are even more high level speakers and many participants from both Member State institutions and international organisations, as well as high level representatives from the private sector and academia.

A great variety of topics shall be covered during this event and we expect intensive discussions on them. Due to the importance of the issues covered – in particular, the development of the Banking Union and Capital Markets Union within the EU, the deepening of the Economic and Monetary Union, the vulnerabilities in global and EU financial markets, etc. – all these discussions and debates shall help us to better define the most suitable decisions within the European Union and from a global perspective.

The Bulgarian Presidency takes place in a demanding time for the EU, especially for the development of the financial markets and services. Current figures show that the economy is growing; unemployment is decreasing and new financial services are being developed. However, in times of economic recovery, it is most suitable to achieve progress in deep reforms and sometimes to take decisions. The non-performing loans that were discussed intensively during the Eurofi High Level Seminar just a year ago are also taken onboard.

It is a demanding time not only for the European Union but also for the global markets. Global markets have also recovered from the last economic financial crisis. At the same time, decisions on the development of a prudential framework and further implementation of a resolution framework, as well as other decisions on the global level, shall be fully discussed and found. In that regard, and to sustain the competitiveness of financial intermediaries, we need to search for a common global solution instead of focusing too much on regional sub-optimals. In fact, in the financial services area, the European Union has proved that challenges are opportunities. The policy window is still open for further improving financial stability, access to financial services for businesses and customer confidence. It is now our common responsibility to keep the momentum up, paving ahead the road to success.

In response to the financial challenges the EU has introduced – and is currently implementing – new harmonised rules to guarantee better financial stability. We have also started building new elements of the EU financial architecture and have advanced important legal reforms. We have learned to be prudent throughout the whole economic cycle, in good times of economic growth as well as bad. Today, the business has more channels to finance its activities. Consumers of financial services are now better protected.

The working programme of EU institutions is very ambitious and many new legislative proposals have been released and debated over past months. The Bulgarian Presidency works hard to achieve substantive progress in legislative files. Meanwhile, new challenges are emerging on the horizon that will affect the interaction of financial services with the real economy. The promotion of sustainable finance, the impact of new technologies in the financial sector, global developments and Brexit negotiations are among these important challenges that shall be further handled today.

I would like to wish success to this Eurofi High Level Seminar and I hope that the fruitful discussions will lead us to find the best solutions for our future. Thank you very much. I wish you great success. ■

Dimitar Radev

Governor, Bulgarian National Bank

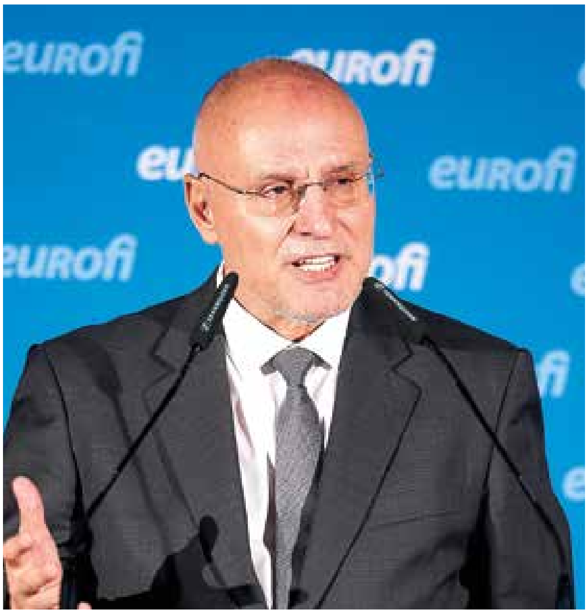
Gala Dinner – Remarks

Distinguished guests, dear colleagues,

First of all, I would like to express my sincere thanks to Eurofi for organizing this important event here in Sofia, and also for inviting me to say a few words tonight.

The Eurofi High Level Seminar that traditionally precedes the informal ECOFIN meeting provides an important platform for exchanging views and networking between public authorities and the financial industry in the EU. As always, the agenda is packed with topical issues many of them closely related this time to the priorities of the Bulgarian Presidency of the Council of the EU: from current macroeconomic and political challenges to digitalization of the financial industry, to improving financial stability and integration in the euro area and in the EU.

To put it shortly, this event has already become an institution, and it says a lot for the dedication and efficiency of the Eurofi team. Therefore, on behalf of everyone attending the seminar, I would like to



congratulate David, of course Didier, Jean-Marie, Marc - the entire team, for this outstanding achievement.

My words of appreciation go also to all of you for the high-quality deliberations, for the thought-provoking and frank statements and discussions, for everything that actually makes this seminar an exceptional financial policy forum.

The Eurofi seminar now convenes us in Bulgaria, so let me give you a flavor of recent economic developments in my country.

Economic recovery is strong with one of the highest GDP growth rates in the EU for the last three years. Fiscal position is traditionally solid. The budget is balanced, and the debt-to-GDP ratio is the third lowest in the EU and goes further down. Our monetary regime is stable for more than 20 years now. The national currency is fixed to the Euro, and there is a firm commitment that the only exit strategy from the present currency board arrangements is the adoption of the Euro. I don't want to burden you with numbers, so let me say it in one sentence: We broadly meet for quite some time now the nominal Maastricht convergence criteria.

At the same time, we are fully aware that much more remains to be done. At a first place, we need to translate our good macroeconomic performance into sustainable real convergence. We know very well what needs to be done domestically, but we are also focusing on this issue in the broader context of convergence in the EU, a complex issue with various political, economic and financial implications, as we discussed during the seminar. Convergence in the EU is one of the key topics of the informal ECOFIN tomorrow, and I expect a really interesting discussion.

Let me move now to my final point and give you some idea about this city.

You probably have not noticed yet, but Sofia is obsessed, in a good way I should say, with looking and staying young, which is not easy to say the least, as we all know. The motto of the city is Keeps Growing, but Never Aging. That's why we say Sofia is ancient, but we never say Sofia is old. I find a lot of symbolism and optimism in these words that helped us to move forward in good, but also in difficult times.

Sofia means Wisdom, and Christians identify God the Son with Holy Wisdom. It is by this Divine Wisdom that religious buildings, just outside this place, of Orthodox Christians, Muslims, Jews, and Catholic Christians function peacefully within a hundred meters from each other in the past centuries, and this is not only symbolic, this is very relevant to the global issues that we face today.

I know your program is very busy, but please find the time to walk around. Just in a couple of hours, you will see signs of several thousand years of history, and I believe you will enjoy it.

Thank you very much again, and have a very pleasant time tonight and during your stay in Sofia. ■

Michel Barnier

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

Dear David, dear Didier, Ministers,

Ladies and gentlemen,

It is good to be back at Eurofi!

We met many times during the financial crisis. I am sure nobody here is nostalgic about that period. No nostalgia, but no short memories either! I am glad to speak to you during better economic times than the last time we met.

• Last year EU growth reached 2.4% – the highest percentage in a decade.

• The labour market continues to improve, with unemployment down to 7.5% in the EU.

• Public finances are improving.

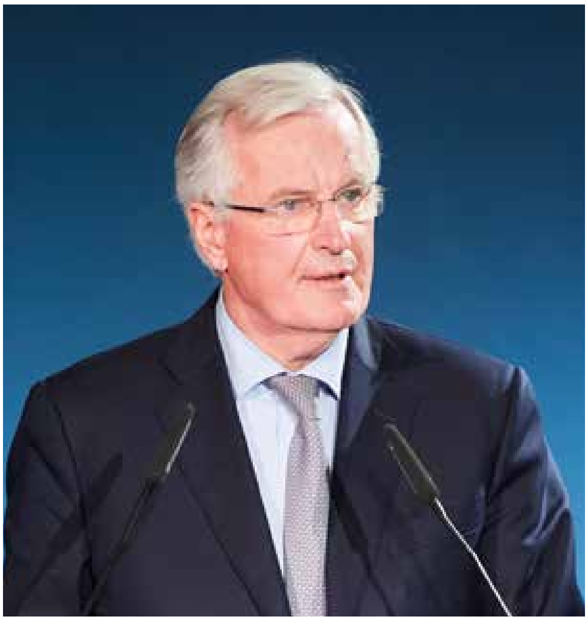
• And investment is recovering, supported by strong demand and good financing conditions. At the same time, the EU faces challenges:

• Unemployment remains high in some parts of the EU, and the increase in wages remains limited.

• Even if it is improving, investment remains too low.

• As a result, core inflation is subdued.

• The EU could also be impacted by global risks, such as: A tightening of financial conditions in the medium term; Geopolitical tensions and a shift towards protectionism globally.



• And of course, Brexit is also one of the various challenges that we face.

Brexit is a lose-lose situation. I do not see add value in Brexit and so far, nobody has shown us any.

• Outside of the Customs Union and the Single Market, there can be no frictionless trade.

• Businesses will be faced with non-tariff barriers and border checks that do not exist today.

• For many economic sectors, this will have an impact on value chains, which are currently closely integrated.

• This will impact in particular manufacturing and logistics, as well as the agricultural and food sectors.

• The situation would be made worse in a "no deal" scenario, which would result in the return of tariffs, under WTO rules.

So, Brexit will come at a cost.

And this cost will be substantially higher for the UK than for the EU. Let me make 4 points:

1. Trade dependency is far higher on the UK side. The EU27 accounts for around 50% of UK export and imports. The UK market represents around 7% of EU exports and 4% of imports. Some EU regions are of course more exposed to the UK than others. We will be very attentive regarding this impact.

2. The UK attracts Foreign Direct Investment to serve broader EU markets. With unavoidable friction and non-tariff barriers, some companies will need to rethink their business models.

3. EU talent may find the UK to be a less attractive place. This could generate skills shortages, for instance in the health sector.

4. Finally, the UK is currently covered by 750 international agreements as an EU Member State. After Brexit, the UK will have to negotiate its own agreements – not only in trade – but also, for instance, in aviation. The UK will need a new administrative capacity.

But we, in the EU, will also need to face the consequences of Brexit.

We need to accelerate reforms that are ongoing to build a stronger Euro Area and a stronger Single Market.

• We must boost confidence in the Eurozone by completing the Economic and Monetary Union,

- For instance, by transforming the European Stability Mechanism into a European Monetary Fund;
- And with a stabilisation tool to help Member States with large asymmetric shocks, which cannot be managed at national level alone.

• We must complete the Banking Union, in particular with a common backstop for resolution, measures to tackle the issue of non-performing loans and a European Deposit Insurance Scheme.

• And we must continue building a Capital Markets Union at 27 to open up markets, give EU businesses better access to finance and provide more investment opportunities for savers. For the CMU, new technologies and digitalisation are of key importance, as is shown by Valdis Dombrovskis' FinTech Action Plan. And I would like to also salute the work of Mariya Gabriel, the Bulgarian Commissioner who, in a dynamic manner, steers the work of the Commission on the Digital Single Market.

All these reforms, on which Valdis will give you more insight in a few moments, were decided before Brexit. But Brexit makes implementing them even more urgent.

Indeed, the UK decision will fragment a market that we have integrated step-by-step at 28. That integration must continue at 27.

Ladies and gentlemen,

The EU is ready to handle the costs caused by the UK's decision to leave.

• Some argue that the EU desperately needs the City of London, and that access to financing for EU27 business would be hampered – and economic growth undermined – without giving UK operators the same market access as today.

• This is not what we hear from market participants, and it is not the analysis that we have made ourselves.

• The ECB states clearly in its Financial Stability Review of last November[1] that: «the risk that access to wholesale and retail financial services would be materially restricted for the euro area economy appears limited.»

On the UK side, Prime Minister Theresa May has clarified that the UK is not looking for passporting. It is positive that there is now more recognition of the cost of Brexit for the UK. But the Prime Minister also asked for mechanisms to continue the exchange of services in each other's markets, «based on the UK and EU maintaining the same regulatory outcomes over time».

I can perfectly see the UK's logic and interest in pleading for a system of "mutual recognition" and "reciprocal regulatory equivalence". This is, indeed, what the Single Market achieves!

«Everything must change so that everything can stay the same», to paraphrase Lampedusa. But this will not work.

The UK has decided to withdraw from the Union. It wants to be sovereign and be able to set its own rulebook, to have its own supervision and enforcement system. In doing so, the UK will move away from EU rules. It will not accept common EU supervision and enforcement tools. These are precisely the essential building blocks of our post-crisis financial regulation. They ensure that the internal market can exist and function correctly. The EU understands that the UK does not want to become a 'rule-taker'. But the UK also needs to understand that the EU cannot accept mutual market access without the common safeguards that underpin it.

This is needed to maintain financial stability, investor protection, market integrity and a level playing field. This objective would not be reached if financial institutions could operate in the EU, or serve clients in the EU, based on an authorisation by the supervisors of a third country, subject to the rules, supervision and enforcement mechanisms of this third country alone.

This is not something that any country in the world would accept. That said, the EU is and will remain the most open market in the world. As Valdis Dombrovskis said in the City of London on Tuesday, no other jurisdiction operates a framework that is more open, comprehensive and rule-based for third countries. And the EU intends to keep the Single Market open with third countries, in general, including the UK.

• In the EU, free movement of capital is open for third countries.

• As regards market access to provide services, the European Council made clear that our future FTA with the UK should include the right of establishment, with EU rules applying.

• And where allowed by our legislation, the EU will be able to declare some of the UK's rules and supervisory systems as equivalent.

On the future of equivalence, ladies and gentlemen, I want to make three points.

1. First, there is no intention of discriminating against the UK, post-Brexit. In financial services, as in other sectors, there is no intention of punishment or revenge. The world

of finance is global and interdependent. We have a mutual interest in working together, not separately.

To date, the EU has adopted more than 200 equivalence decisions covering more than 30 non-member countries.

And we are improving the equivalence process. We have made new proposals with EMIR step 2 and the Investment Firm Review, and we started the process of improving equivalence with the ESAs Review. Why would the equivalence system, which works well for the US industry, not work for the City?

2. Secondly, the equivalence system will operate in a more effective manner if the UK decides not to diverge from our financial regulation. Let's not have a short memory! We all saw during the crisis that the risks of financial instability were ultimately borne by taxpayers – not only in the UK. We saw for instance that remuneration of bankers set the wrong incentives and allowed excessive risk- taking. And since the financial crisis evolved into an economic and social crisis, the consequences were indeed borne by society, from the young unemployed to the owners of small businesses. And I am not even mentioning the political consequences: nobody should underestimate these!

In order to limit the risks in the future, we collectively developed, together with the G20, more effective financial regulation and supervision. And we were very happy to do this hand-in-hand with the UK. We need to keep this joint regulatory effort in mind, and be ready to exchange our ideas for future rules in the context of a close and voluntary regulatory cooperation.

3. Thirdly, the 21-month transition period that we have proposed could be useful to prepare for the new relationship.

That transition will also allow the EU to consider the adoption of equivalence decisions.

However, certainty about this transition period will only come once the whole Withdrawal Agreement has been agreed and ratified. In the meantime, both market participants and public authorities should hope for the best, but prepare for the worst. In other words, for as long as the ratification has not taken place, we need to be ready in case of a «no deal, no transition» scenario. This is our collective responsibility. We have made good progress in the last 6 months, but we are not there yet. There is difficult work ahead before the June European Council. This means that market participants and public authorities must continue to prepare for all scenarios. No one should underestimate the risk of disagreement.

Ladies and gentlemen,

The EU is ready to engage in close cooperation with the UK and consider equivalence decisions, where needed. Since he is going to speak in a moment, I want to publicly thank Valdis Dombrovskis, as well as DG FISMA, for their excellent cooperation on Brexit issues.

But the UK, which has acknowledged that its current red lines mean losing the financial passport, must also acknowledge that it cannot have the benefits of such passports. And market participants should realise that this will not be business as usual. In order to accompany that process, the European Commission has issued notices on asset management, credit-rating agencies, markets in financial instruments, insurance and reinsurance, banking and payment services, statutory audit and post-trade financial services.

We hope that these notices will be helpful. All market participants, big and small, will have to adapt to the new reality. I know how mobile and dynamic the financial industry is. I trust its capacity to adapt to new times and to continue their contribution to the development of the Capital Markets Union and EU's Single Market in financial services.

We should look at the future not with fear of the unknown but with confidence in well-regulated and supervised markets.

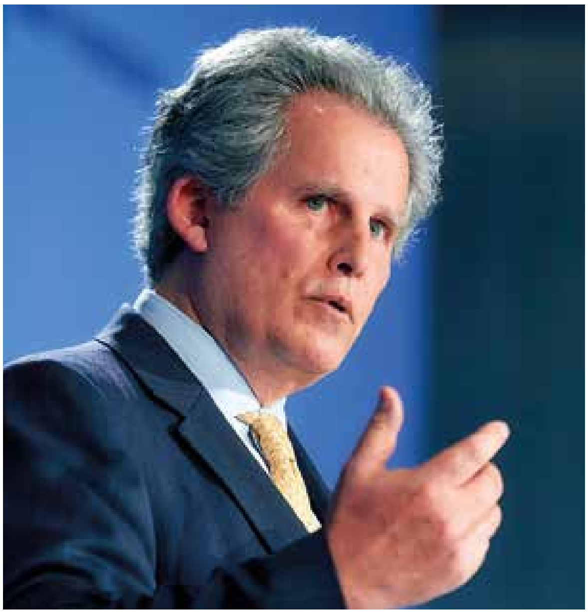
- Europe will continue to be an open and attractive place to do business.
- London will continue to be a global financial centre.
- A significant level of financial relationship will remain, properly managed and supervised.
- Firms will adjust their business models to the new reality.
- And public authorities will ensure that risks to financial stability are properly supervised and that rules are enforced.

Thank you for your attention. ■

1. ECB Financial Stability Review, November 2017, page 25. https://www.ecb.europa.eu/pub/pdf/other/ecb.financialstabilityreview201711.en.pdf?7a775eed7ede9a ee35acd83d2052a198

David Lipton

First Deputy Managing Director, International Monetary Fund



Trust and the future of multilateralism

Introduction

Allow me to express my appreciation to Eurofi for organizing this conference. I am pleased to be here to address the important issue of multilateralism. The high level of attendance and representation in Bulgaria at this conference is testament to how seriously these issues are taken in Europe, and that is encouraging to all of us at this juncture.

Until recently, the theme of multilateralism probably would have prompted me to focus on governance reforms at the IMF.

But times have changed.

We live in an era of doubts and questions about the global order. We have seen an erosion of trust in bedrock institutions—at the national, regional, and global levels. This trend is especially evident in the advanced economies of Europe and the United States. So tonight, I want to talk about trust. And its bearing on the future of the global economy—particularly the multilateral system, and how the IMF will evolve.

A week ago, our member countries came to Washington for the IMF and World Bank Spring Meetings. Some of you were there. The subject of trust, and the erosion of trust, came up over and over again, whether in discussions of national policymaking, the need to fight corruption, the challenge of strengthening Europe, or maintaining confidence in the trade and payments system.

Let me speak about what we heard, and what we take from it all. Many say that we are witnessing a loss of trust in political parties, national governments, regional authorities, and among international trade and investment partners. We often throw around the word trust rather loosely. But serious and careful work by Luigi Zingales and several others has defined trust as "civic capital", meaning "those persistent and shared beliefs and values that help a group overcome the free rider problem in the pursuit of socially valuable activity", and has begun to measure it.

Confidence and Economic Achievement

They find that where trust exists and is reciprocated—where there is "confidence" in policies, institutions and systems—economies will achieve more.

But when it is depleted, when people come to believe that the "system" does not reflect their values, is not under their control, and no longer works to their benefit, economies will underperform.

Why is trust eroding? We can identify three important factors.

First, is the reaction to globalization—or, more specifically the dislocations that have occurred in our interconnected global economy. Many people believe that it has not delivered fair outcomes and that there is a lack of accountability for leaders and those who have gained the most.

Second, the global financial crisis, and the slow, decade-long recovery that followed exacerbated this trend. Governments have been blamed for failing to prevent the crisis in the first place, and then compounding the difficulties by failing to engineer a swift recovery. For many, the past decade only provided proof that special interests had hijacked institutions, with working people left holding the bag.

Deep anger was directed at the bankers—although, ironically, recent surveys show that trust in banks is now returning. That no doubt reflects the reforms and regulation that followed the crisis, which underlines one key lesson: trust can be rebuilt.

The third factor is technology. The rise of automation, AI, big data, e-commerce, and fintech each have huge potential. But they also deepen worries about the future of work, the sustainability of established businesses, the spread of cyber-criminality, and the weaponization of data. It should come as no surprise that we are witnessing a loss of trust in the big internet giants; witness the pressure being brought to bear on Facebook over privacy issues.

We are in a trust recession. Certain consequences of that recession are clear. The rise of populist political parties and protectionist sentiments may be the most obvious, along with the anger in many countries about income inequality. But we see a deeper tendency at work—a shift as people identify with and trust in fragmented, localized entities; where citizens feel they can regain a sense of control. This includes civil society organizations, single-issue movements, on-line groups and communities that form on social media.

Decentralization and Fragmentation

But while decentralization gives people a sense of belonging and local impact, this fragmentation comes with a fundamental downside consequence. The more trust resides at local and decentralized levels, the less those who are trusted will have the power and authority to address and solve problems that inherently require centralized authority, and in an increasing number of cases: global cooperation.

And that brings me back our topic. Let's take a broad view of multilateral institutions to include the regional, because I think it's important to include what Europe is facing in this discussion. So, I will speak about some of the issues facing Europe and then about the global level. Trust in some European institutions has suffered from concerns about overreach. Discontent and suspicion of supranational bodies and regulation has generated the backlash in recent votes—from the UK to Italy.

Looking forward, Europe faces additional vulnerabilities as long as elements of the regional construct remain incomplete. With work remaining on banking union and the harmonization of national regulations and practices in the financial sector, the risk is a further erosion of trust if new problems arise and Europe is not ready. On the upside, progress on further integration could renew trust. What is proving difficult is contending with risk reduction —the legacies of crisis and national policy indiscipline—while building elements of risk sharing. Unless that balance is properly struck, trust may be hard to maintain, if citizens in some countries see themselves as payers and others as receivers.

Moving to the global level, distrust of global agreements and institutions is most evident in the realm of trade and foreign direct investment—witness the turn toward bilateral negotiations and treaties and the talk of unilateral actions and risk of retaliation. I hope we can all agree that cooperation rather than unilateral action is the only sure way to avoid the risk of damaging escalation in trade tensions. But by the same token, globalization will not receive sustained, broad support unless it is based on free and fair trade and investment practices. That means being willing to update rules and institutions commensurate with the growing sophistication and complexity of the global economy—and as technology changes the economic landscape. As we have been urging, all countries need to work to improve their own policies, and work together to take account of the dislocations from globalization and technology.

Trust and IMF Governance

The IMF is no stranger to distrust. We have been at the center of crisis and controversy. We have faced pressure again and again to reform to meet the changing needs and expectations of the international community. We feel it again now in discussions about the global financial safety net, which we all need as a bulwark against future crises.

I began by mentioning IMF governance. Over the past decade, we have taken important steps to make our decision making more reflective of changes in the global economy, with emerging market countries gaining a larger voice.

That is only a first step. These reforms will continue. In addition, we must be better attuned to ideas and grievances coming from all corners of the globe. We must demonstrate that we are a learning, evolving, and competent institution. But more importantly, we must demonstrate that there is still reason to work together for global goods that benefit all people and transcend national and parochial boundaries.

We all need to work together to prepare multilateralism for a world where trust and authority are more decentralized. Our multilateral institutions are more critical than ever. We cannot take them for granted. The way we rebuild confidence is to make sure that cooperation leads to concrete gains that benefit all people, and that these gains are widely shared. We can restore trust in institutions and larger purposes if we set out to regain the sense that something concrete can be achieved by working together. ■

Isabell Koske

Deputy Director, Organisation for Economic Co-operation and Development

Dear Minister Goranov, Ladies and Gentlemen,

It is a pleasure to be here with you today. I would like to thank EUROFI for the invitation to share some thoughts on economic convergence and resilience in the Eurozone and the European Union more broadly.

The OECD engagement with Europe continues to deepen and flourish. We see this in OECD membership. Among our 35 member countries, 22 are also members of the European Union. Latvia became a member in 2016. Estonia and Slovenia became members in 2010. Moreover, Lithuania is on its way to accession.

We have a regional programme with South East Europe that promotes stability and prosperity in the region since 2000. We help European countries design and implement reforms and policies in many crucial areas. Our work with Italy and Spain on their labour market reforms, with France on the Loi Macron, and with Slovenia on its National Development Strategy are recent examples.

I will start by reviewing where we stand on convergence and then turn to discuss some of the reform priorities to restart the convergence machine.

Convergence in the euro area: where do we stand?

Convergence in per capita income levels across countries is important to garner strong and lasting support for the European project and the single currency. In the decades leading up to the Maastricht treaty in 1992, countries with lower GDP per capita grew faster than richer ones, and the dispersion of GDP per capita across countries fell.

However, the process of per capita income convergence among the original Eurozone members has slowed or even stalled since then. For countries that joined the EU after 2004 and newer euro area members, income gaps with “old” members continued to narrow up until the financial crisis. But convergence for these countries also slowed thereafter, even if catching up has resumed more recently.

What went wrong?

The common currency and the Single Market project were expected to deepen the integration of capital, goods, services and labour markets, thereby stimulating productivity and income convergence. But these expectations have been met only partially. The Single Market is still unfinished business.

Trade integration, labour mobility and price convergence within Europe remain below what is observed across US states. Intra-EU trade in services has grown steadily, but is still limited. Financial market integration within the euro area was fragile before the crisis and has gone into reverse.

The sovereign debt crisis has exposed weaknesses in the design of the euro area that are hampering steady growth and convergence. Fiscal policies are supposed to work with the common monetary policy to smooth business cycles, but they have often ended up being pro-cyclical. Some countries had to tighten fiscal policy too rapidly during the downturn.

The bulk of risk sharing across the euro area should happen through diversified private investment and financing opportunities. But this is held back by the incomplete banking union and fragmented capital markets. At the same time, public risk sharing through fiscal transfers, which would help weather large negative shocks, is virtually non-existent.

How can the convergence machine be re-started?

In this context, it is encouraging to see that the European economy is expanding. Economic growth is set to reach 2.3% this year and 2.1% in 2019 in the euro zone.

Labour markets keep recovering. Average unemployment in the EU stood at 7.1% in February and is thus almost back to what it was before the crisis, even though unemployment is still above pre-crisis levels in some countries like Greece, Spain and Italy. Employment and labour force participation rates in many countries are now above their pre-crisis levels.

These are very positive achievements.

Looking ahead, however, the picture looks less rosy. Europe is rapidly ageing, productivity growth is weak and business investment, although strengthening, remains low compared to past economic expansions. An additional challenge is how to strengthen the economic and monetary union to make the euro area less vulnerable to crises.

Let me now highlight two of the most important priority areas where we need to implement deep and broad reform: the first is the architecture of the Monetary Union and the second concerns reforms to boost productivity.

Reforming the architecture of the Monetary Union

Further reforms in the architecture of the monetary union are needed to enhance its resilience and ensure its long-term sustainability.

Making progress to complete the banking union is a priority. Much has been achieved on banking supervision and regulation. But progress has been smaller in the area of crisis resolution. We need collective action to complete the banking union by creating a common fiscal backstop to the Single Resolution Fund. We also need to reinforce the guarantee of deposits through a European deposit insurance scheme.

Making good progress on the Capital Markets Union is also essential to deepen the integration of capital markets. Finally, a euro area-wide fiscal stabilisation tool would help complement member states' fiscal policies and accommodate common shocks when monetary policy is constrained.

Boosting productivity

To sustainably restart the convergence engine we need to strengthen productivity growth. More productive societies not only grow faster and create more jobs, but also enjoy better living standards.

Most OECD countries have experienced a significant slowdown in productivity in the past two decades. But the gap between the European Union and other leading economies like the United States is particularly worrying.

To boost productivity and promote investment, the European Union needs to give the Single Market a fresh impetus. This requires removing the remaining barriers in services, digital, energy and transport.

But EU member states should also do their part. We see from our annual Going for Growth exercise that the impetus to reform has steadily declined over time in most European countries. This is worrying. Comprehensive structural reforms are crucial if we want to sustain growth beyond the cyclical upswing, boost investment and productivity, create more and better paying jobs, and strengthen inclusion.

As the economic expansion strengthens we have a good window of opportunity to reverse this trend. At the OECD we have estimated that an EU-wide push for reforms to boost productivity could alone raise EU GDP by as much as 0.7% by 2023. Improving skills, reforming product markets to boost competition and encourage innovation, and lowering barriers to trade and investment are the best guarantee to help durably revive income convergence and strengthen popular support for the euro and the European Union.

Concluding remarks

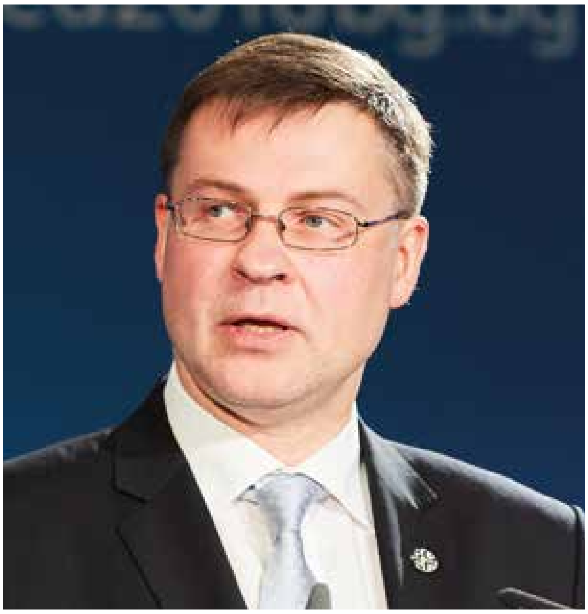
Minister, Ladies and gentlemen,

The return of higher growth offers a window of opportunity to make renewed progress to strengthen the architecture of the Euro Area and to make progress on structural reforms to boost productivity. The OECD stands ready to work together with you to address these fundamental challenges.

Thank you! ■

Valdis Dombrovskis

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



Our agenda for more integrated, diverse, and resilient financial markets in Europe

Ladies and Gentlemen,

It is a pleasure to be here in Bulgaria, a land of tradition but also innovation. This is the country that invented Cyrillic, one of the EU's official alphabets, which today is used by over 300 million people worldwide. At the same time, it is a country where the number of IT professionals has grown by over 50 % since 2011. And the share of female IT professionals is the highest in the EU. And finally, Bulgaria is the country that is presiding and steering our union through some of its most decisive months. I will get back to that shortly.

The contrast between history and modernity is expressed beautifully here in Sofia, where golden church domes and construction cranes grace the skyline side by side. For a European city, there is no greater goal than to successfully marry tradition with modernism.

The same can be said for the European financial system. Traditionally, it has been very dependent on banks, and fragmented along national borders. And Europe benefits from a diversified banking sector, including smaller banks and financial institutions, serving local communities and businesses. But we also need deeper and more diverse capital markets to complement banks as a funding source for Europe's growing companies. And we urgently need more integrated financial markets in Europe. This is key for a more resilient Economic and Monetary Union.

To get there, we have to stay the course with our flagship projects: the Banking Union and the Capital Markets Union. So these will be my two main points today. But before I get to that, I would like to express my full support to the messages which our Chief Negotiator Mr. Michael Barnier relayed to you earlier on Brexit. As Michel mentioned, we have proposed a 21-month transition period that could give valuable time to prepare for the new relationship between the UK and the EU.

But this could only happen once the whole withdrawal agreement has been agreed and ratified. For the sake of financial stability, firms and supervisors need to continue their work to prepare for all different scenarios. The Commission is assisting where we can. But at the end of the day, it is for the companies themselves to identify concretely how Brexit will impact their business models.

Looking at our future relationship, EU and UK financial markets will be in the future less integrated than today, but they will still have many ties. So this requires maintaining strong convergence of rules and supervision. On our side, we are reviewing and improving EU rules on equivalence, which is an important tool to ensure such convergence. I am confident that the EU and the UK will find a new way of working together.

Coming back to the Banking Union... Currently, the European economy is growing at its fastest pace in a decade. So, both for the EU and euro area we saw 2.4% growth last year, and we expect 2.3% growth this year. Employment is at record levels, and the unemployment rate is at its lowest since 2008. Our main task ahead is to ensure that the benefits of this growth are felt by all Europeans. This is why we are focusing on inclusive growth and relaunching convergence among EU countries. But this favourable economic background will not last forever. So it is time that we strengthen our Economic and Monetary Union. This leads me to our priority number one, which is to complete the Banking Union.

Our basis is the 2016 Roadmap. We have a commitment from leaders to take decisions on this matter in June. I am working with all sides to help Europe deliver on these promises. The first step must be to finally reach agreement on the Banking package, which is long overdue. Then - based on the Roadmap - we need a common backstop for the Single Resolution Fund. We also need clarity on a European Deposit Insurance Scheme. Last autumn, we presented some ideas for how to move towards EDIS in a more gradual way than in our original proposal.

Risk reduction and risk sharing must go hand in hand. Therefore we should also pursue our work on non-performing loans, which is gradually showing results. The share of non-performing loans in the EU banking system has been reduced significantly over the last three years, from 6.7% to 4.4%, according to data from the third quarter of last year. To help maintain this trend, we presented in March a package of measures to help banks reduce current NPLs and prevent their accumulation in the future. With this proposal, we have gone further than the risk-reduction measures originally planned in the Council's Banking Union roadmap.

Let me now move to the Capital Markets Union, which is an important complement to the Banking Union. We launched it to knock down cross-border barriers to investment, give businesses more diverse sources of funding, and make our economy more resilient to future crises. And we have already achieved a lot thanks to new rules on EU venture capital funds, on the prospectus to more easily raise capital on public markets; and on simple, transparent and standardised securitisation.

But despite this progress, CMU is far from complete. Out of 12 legislative proposals tabled so far, nine are still under discussion by the European Parliament and Member States. So we need to accelerate the work to get those proposals past the finish line before the next European elections. This is all the more urgent, because Europe's largest financial centre is about to leave the single market. By the time of Brexit, the conditions for a true single market for capital need to be in place.

Together with the Bulgarian presidency, we are working along three main dimensions to complete the Capital Markets Union: First, we want consumers and investors to benefit fully from the single market thanks to EU-wide financial products. I hope that the European Parliament and Council will finalise before summer their positions on the Pan-European Personal Pensions product. This product would help Europeans to prepare for retirement by making the most of their savings.

And just last month, we proposed a new EU license for crowdfunding platforms, to help them operate across the single market based on a single authorisation. We also put forward an amendment to the Cross-Border Payments Regulation, to ensure that all Europeans have the right to make cross-border payments in euros for the same price as a domestic payment. Second, we want to remove barriers to deeper capital markets through clearer and simpler rules for businesses. One important example is our 2016 proposal on business insolvency, to promote preventive restructuring and give viable businesses a second chance.

With our Call for Evidence, we identified further measures to simplify rules and reduce the regulatory burden on companies. Ever since, this has been a priority for upcoming legislation. For example, in May, we will propose more proportionate rules for Small and medium enterprises to list and issue on SME Growth Markets. SMEs are the backbone of the European economy, so the Capital Markets Union cannot be built without them.

This brings me to our third focus, which is more consistent supervision of EU capital markets. For an integrated single market, rules should be harmonised not only on paper, but also in practice. This is the only way to ensure financial stability, the proper protection of investors, and a level-playing field for EU financial companies.

Last fall we proposed a review of the functioning of the European Supervisory Authorities - EBA, ESMA and EIOPA. They are doing important work to help apply and enforce EU legislation and supervise markets. But we need to better equip them to promote supervisory convergence and address new challenges. We propose to achieve this notably by reinforcing decision-making, and promoting independent reviews of national authorities.

More supervisory convergence would help to underpin the Capital Markets Union with an adequate supervisory framework. But it is also a broader issue. For example, I hope that our proposals would also help the European Supervisory Authorities to play a stronger role in coordinating the fight against financial crime and money-laundering.

We have recently made some progress in this area: Last week, the Commission proposed new rules to help law enforcement authorities' access the financial information they need to investigate serious crime. For example, this would grant them case-by-case access to bank account information held in national registries. Also last week, the European Parliament voted to approve the 5th Anti-Money Laundering Directive.

But to effectively fight financial crime, we need proper application and enforcement of these rules, and strong coordination among different authorities. By implementing the ESAs review proposal, we can promote the cross-border coordination and cooperation that we need.

Ladies and Gentlemen,

In their March meeting, the European Council called for an increased effort to deliver within the current electoral cycle the Capital Markets Union. And last week we heard from two prominent European leaders in Berlin that this would be «no problem at all». So now it is time to turn words into action.

On Capital Markets Union, as on Banking Union, we should finish what we have started, and prepare our financial sector and our economy for the future. I count on your support for this important work.

Thank you very much. ■

Brian D. Quintenz

Commissioner, U.S. Commodity Futures Trading Commission

Remarks

Good morning. This is the first Eurofi Seminar that I have had the privilege to attend and I am delighted to be able to participate in this remarkable conference. Before I begin, let me quickly say that the views I express are my own and do not represent the views of the Commission.

In addition to being my first Eurofi conference, this is also my first trip to Sofia. I have been struck by the city's beauty and its embodiment of living history. Sofia has been inhabited for over 8,500 years, but perhaps its closest modern day precursor was the Thracian settlement Serdica built by the Roman Emperor Trajan in the second century BC. Reminders of antiquity are scattered amongst modernity in this bustling city. Indeed, I have only to look out the window of my hotel to see St. George's Church – built in the 4th century AD – safely ensconced in the courtyard. I discovered that the very parking lot of my hotel was once rumored to sit on top of Constantine the Great's palace.[1] However, recent excavations of St. Nedeylya square unearthed not a palace, but the ruins of an enormous building containing various artefacts, including a ceramic vessel containing 3,000 silver Roman coins inside, with the owner's name, Selvius Calistus, scratched on the outside.[2]

Sofia is a city where the ancient past and present converge. In many ways, we are living through that same convergence now with respect to technology and innovation. Once novel inventions – like the home phone, film cameras, VHS tapes – have become obsolete. And yet, the underlying functions and needs they addressed remain with us, persisting into the future to be solved by new, once unthinkable, but quickly taken for granted, innovations. Although our world would certainly be unrecognizable to Selvius Calistus if he were here with us – we do know there would be some shared understanding – the need for money as a medium of exchange, the desire for shared society and recreation. The question emerges, how do we harness creativity and technological innovation so that they work to better meet the needs and desires of all of us today, so that they have a lasting positive impact in our daily lives, on our cultures, and, in light of the focus of this conference, on our financial markets.

Supporting Responsible Financial Innovation

In the midst of the technological renaissance we are living through, what then is the proper role of the regulator? I believe it starts with leadership, clarity, cooperation, and open-mindedness. I think it is incumbent upon regulators to create a workable and appropriate regulatory framework that facilitates market-enhancing innovation. This means adopting regulation that is fair, technology-neutral, and does not stifle positive innovations. It means actively engaging with the financial technology (FinTech) community and other regulators to provide the regulatory certainty necessary to support innovation that promotes competition, vibrancy, and growth in our financial markets. It also means developing thoughtful, balanced regulation that allows nascent markets to develop while also protecting investors and preserving market integrity.

In order to further these objectives, the CFTC is engaging with industry to learn more about FinTech, through the LabCFTC initiative and the Technology Advisory Committee (TAC). Chairman Giancarlo and the agency launched LabCFTC in the spring of 2017. Through early engagement during the development process, LabCFTC hopes to offer clarity and guidance about the CFTC's regulatory framework. Since its launch less than a year ago, LabCFTC has met with over 150 market participants.

LabCFTC also assists staff in identifying where potential changes to the existing regulatory framework may be beneficial. For example, if an innovation achieves the desired outcome of a regulation, but does not fit within the letter of the rule, LabCFTC advises on whether regulatory relief should be provided or if it may be appropriate to consider rule revisions. LabCFTC's knowledge and expertise also promote technology-neutral regulations—ones which mandate a particular result but not the means by which the result is achieved.

LabCFTC also coordinates with other U.S. and international regulatory authorities. Through formal and informal relationships, LabCFTC seeks to collaborate with, and learn from, the experience of fellow regulators to develop best practices and recognize emerging trends. Most recently, the CFTC entered into an arrangement to collaborate on financial innovation with the United Kingdom's Financial Conduct Authority (FCA). LabCFTC and Project Innovate, the FCA's FinTech initiative, will share information regarding market trends and developments, as well as insights derived from innovation competitions, sandboxes, or other similar endeavors.

In addition to LabCFTC, the agency also has five advisory committees which solicit the input of outside experts on different topics to advise on developments, risks, and regulatory issues. I have the privilege of sponsoring the TAC, which explores the potential application of new technologies to the derivatives markets. For example, at our inaugural meeting this past February, the TAC discussed several areas where rapid technological innovation was creating both challenges and opportunities in our markets, including blockchain and distributed ledger technology, cryptocurrencies, machine learning and artificial intelligence, automated trading technologies, and cybersecurity best practices. Over the course of the next year, the TAC will explore each of these issues in greater detail, with the ultimate goal of providing the CFTC with actionable, practicable advice.

Cryptocurrencies

One area of technological innovation that has captured the world's attention is the cryptocurrency space. Since Satoshi Nakamoto first published his groundbreaking paper on a cryptocurrency called Bitcoin almost a decade ago, we have witnessed the proliferation of many new cryptocurrency concepts and tokenized products.[3]

In fact, I believe it is important to separate the idea of cryptocurrencies, whose main purpose is only to serve as a medium of exchange or a store of value, from the proliferation of "tokens" generally. As I postulated two days ago at the City Week conference in London, I see three main motivations for the broader tokenization revolution. One motivation for a company or entity to tokenize a product is purely as a marketing ploy – to take advantage of the popular and speculative mania surrounding all things "token." However, just because a product is tokenized does not change its underlying qualities. For example, if Disney World were to tokenize the admissions to its theme parks, those tokens would still be tickets. Tokenizing the tickets does not make them currencies and it does not make them securities. It makes them tickets. Similarly, tokenizing a security does not change the fact that it is a security.

A second motivation to create a token is to enable and realize the efficiency of the blockchain construct in assigning and tracking ownership. This is having, and will continue to have, an impact on title transfer and settlement processes. Think of this as the back office tokenization revolution.

Lastly, a third motivation is to utilize the transferability of tokens to create a secondary market for any and all non-tangible things – the eBay of Intangibles so to speak – for rights, services, permissions, etc., that the seller allows to be transferred between parties. Empowering a secondary market's price discovery and valuation functions for products that were previously untransferable – such as extra storage space on a home computer – is a fascinating development.

Certainly, not all tokens are cryptocurrencies – in fact, very few are. And even those best representing a currency-focused concept have yet to truly attain that functionality. Yet it would be a mistake, in my view, to dismiss those products because of that fact. Sure, some of these cryptocurrencies have not yet, and may never, achieve the acceptance and stability of a true reserve currency, like the dollar or the euro. But, there may also be instances where an established cryptocurrency's volatility and transferability could compare favorably against a sovereign currency.

In fact, it is quite possible, that just as the cryptocurrency trading market evolved from the bottom-up, starting at the retail level and slowly reaching the institutional level, so may the global driver of cryptocurrency acceptance come not from places like Washington, London, Frankfurt, or Tokyo, but rather through a bottom-up process as well. That may ultimately prove wrong, but it is worth pondering.

Indeed, the intense, ongoing debate about cryptocurrency's intrinsic value has caused regulators around the globe to grapple with how best to respond. Some nations have banned cryptocurrency mining and trading.[4] Others permit cryptocurrency trading, but restrict anonymous trading or require spot platforms to register with regulators.[5] Many others are vigilantly monitoring developments to determine if additional regulatory oversight is necessary and, if so, what form it should take.[6] Most recently the G20 called for the Financial Stability Board, in consultation with other standard-setting bodies, including the Committee on Payments and Market Infrastructure (CPMI) and International Organization of Securities Commissions (IOSCO), to report in July 2018 on their work to develop global standards for what they label as crypto-assets.[7]

Given that there are many participants on those boards and groups who are here today, I would like to take a few minutes now to discuss the regulatory framework for cryptocurrencies in the United States as it stands today.

Regulatory Framework in the United States

At the outset, I would note that the regulatory landscape for cryptocurrencies, including so-called tokens, within the United States is an evolving one. Regulators in the United States, including the CFTC, are monitoring cryptocurrencies and working collaboratively to develop effective regulatory approaches for this new asset class. The Treasury Department has established a crypto-asset working group which includes the CFTC, Securities and Exchange Commission, and banking regulators. Ongoing communication among regulators is critical because oversight jurisdiction over cryptocurrencies is shared across multiple agencies in the United States.

For example, state regulators and the Treasury Department's Financial Crimes Enforcement Network (FinCEN) regulate cryptocurrency platforms as money service businesses, thereby subjecting those "exchanges" to anti-money laundering and know-your-customer requirements.[8] The Internal Revenue Service views cryptocurrencies as property and subjects sales to capital gains tax without a de minimis threshold.[9]

The CFTC and SEC also have jurisdiction over cryptocurrencies depending on their status as a commodity or as a security. From our own perspective, the CFTC has both oversight and enforcement authority over derivatives on commodity cryptocurrencies, but only enforcement authority over the spot transactions of commodity cryptocurrencies. This means that the CFTC's role is broad and far reaching with respect to derivatives trading on cryptocurrencies – such as futures contracts on Bitcoin – including setting requirements for registration of trading platforms or firms, trade execution, orderly trading, data reporting, and recordkeeping. However, in the spot markets, or the platforms where cryptocurrencies themselves are actually bought and sold, the CFTC has onlyenforcement authority - the CFTC can only police fraud and manipulation in the actual trading of cryptocurrencies, but has no ability to make platforms register with the Commission or set any customer protection policies.

On the other hand, if the cryptocurrency or digital asset is a security, it must be traded on a platform that is registered with the SEC or is specifically exempt from registration.[10] In addition, the SEC has stated that many initial coin offerings (ICOs) used to raise capital for business projects may be securities, thereby triggering the fully panoply of registration and investment protection requirements under American securities laws.[11]

From my perspective as a CFTC Commissioner, I think the area with the greatest need for enhanced regulatory certainty and oversight is the spot market. In that regard, the CFTC has undertaken an educational campaign to provide customers with information about cryptocurrencies and to warn about potential fraud in these markets. The CFTC's Division of Enforcement has aggressively targeted deception and manipulation to ensure that innocent customers are not exploited by fraudsters. And with respect to jurisdictional considerations, the CFTC has been, and continues to be, in close communication with the SEC.

In light of the patchwork of state and federal regulation that currently exists in the United States, and until such time as Congress might choose to add spot commodity markets to a regulator's jurisdiction, I have also encouraged cryptocurrency spot platforms to come together and form an SRO-like entity that could develop and enforce customer protection rules to strengthen the integrity of these growing markets. I think an independent, self-regulating body for spot platforms in the United States could significantly contribute to ongoing efforts to rationalize and formalize cryptocurrency regulation. I am not now suggesting, nor have I ever suggested, that this potential body should be a substitute for federal oversight in this area; rather, I believe this potential organization's efforts can fill a current void and could eventually complement federal oversight efforts.

I think it is the role of the CFTC, along with other regulators, to support the integrity of these developing markets so that individuals have the information and transparency they need to make informed choices. Indeed, when Congress amended the CFTC's governing statute to give exchanges the ability to list new contracts through a self-certification process, as opposed to requesting the CFTC's approval, I believe Congress did so intentionally to limit the CFTC's power to make value judgements on new contracts. I also think that is appropriate – the markets, investors, and consumers need to decide for themselves which new products and innovations are worthwhile and which are not, and what value truly is.

Conclusion

I am optimistic about the future of financial technology and its potential to improve all of our lives. Gatherings like this help us to build the partnerships and trust, and attain the expertise and wisdom, to recognize and support those innovations that are genuinely innovative, that have the power to enhance our societies. I look forward to working with all of you to develop thoughtful regulatory frameworks that allow our markets to flourish and our innovators to innovate. Thank you. ■

1. Ivan Dikov, Archaeologists Start Search For Roman Forum of Ancient Serdica in Bulgaria's Capital Sofia, Archaeology in Bulgaria (April 22, 2018), http://archaeologyinbulgaria.com/2015/07/06/archaeologists-start-search-for-roman-forum-of-ancient-serdica-in-bulgarias-capital-sofia/.
2. Leon de Leeuw, Serdica (April 22, 2018), https://www.leondeleeuw.net/travel-bulgaria-sofia-serdica.
3. Cryptocurrency Market Capitalizations, CoinMarketCap, https://coinmarketcap.com/all/views/all/.
4. Chao Deng, China Quietly Orders Closing of Bitcoin Mining Operations, Wall St. J., Jan. 11, 2018, https://www.wsj.com/articles/china-quietly-orders-closing-of-bitcoin-mining-operations-1515594021.
5. Eun-Young Jeong and Steven Russolillo, Got ID? South Korea Tightens Noose on Anonymous Cryptocurrency Trading, Wall St. J., Jan. 24, 2018, https://www.wsj.com/articles/noose-tightens-on-anonymous-cryptocurrency-trading-in-south-korea-1516699321; Garrett Keirns, Japan's Bitcoin Law Goes Into Effect Tomorrow, Coindesk, April 2017, https://www.coindesk.com/japan-bitcoin-law-effect-tomorrow/.
6. Communique, G20, Finance Ministers and Central Bank Governors (March 19-20, 2018), https://g20.org/sites/default/files/media/communique_-_fmcbg_march_2018.pdf.
7. Id. The IMF has also recently urged international standard-setters to work together to develop a consensus on the definition of crypto-assets and their potential role in the financial system. IMF, 2018 Global Financial Stability Report 24-26 (April 18, 2018), http://www.imf.org/~/media/Files/Publications/GFSR/2018/April/ch1/doc/text.ashx?la=en.
8. See, e.g. FinCEN Guidance: Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies (Mar. 18, 2013), https://www.fincen.gov/resources/statutes-regulations/guidance/application-fincens-regulations-persons-administering; "Virtual Currency" licenses issued by the State of Washington Dept. of Financial Services and the "BitLicenses" issued by the New York State Dept. of Financial Services, https://dfi.wa.gov/bitcoin; http://www.dfs.ny.gov/legal/regulations/bitlicense_reg_framework.htm.
9. Internal Revenue Service, Notice 2014-21 (March 25, 2014), https://www.irs.gov/newsroom/irs-virtual-currency-guidance.
10. Statement on Potentially Unlawful Online Platforms for Trading Digital Assets, Divisions of Enforcement and Trading and Markets, Securities and Exchange Commission (March 7, 2018), https://www.sec.gov/news/public-statement/enforcement-tm-statement-potentially-unlawful-online-platforms-trading.
11; Statement on Potentially Unlawful Online Platforms for Trading Digital Assets, Divisions of Enforcement and Trading and Markets, Securities and Exchange Commission (March 7, 2018), https://www.sec.gov/news/public-statement/enforcement-tm-statement-potentially-unlawful-online-platforms-trading; Statement on Cryptocurrencies and Initial Coin Offerings, SEC Chairman Jay Clayton (Dec. 11, 2017).

Dietrich Domanski

Secretary General, Financial Stability Board

A new era for the FSB: from policy development to dynamic implementation

Good afternoon ladies and gentlemen,

This afternoon I will update you on the FSB's planned work for 2018. Our agenda this year is markedly different from previous years as our work pivots from policy development to dynamic implementation.

Where we are now, and where are we going?

For much of the past decade, policymakers have been working to repair the fault lines that led to the global financial crisis. This has been a long and demanding

journey. Many firms have had to change their business models as a result of evolving market realities and the new regulatory framework that has shaped incentives and altered the costs of doing business.

But the journey has taken us a long way towards a global financial system that is safer, simpler and fairer than it was one decade ago. Banks are better capitalised and more liquid. Those aspects of shadow banking that contributed to the global financial crisis have declined significantly and generally no longer pose financial stability risks. Derivatives markets are safer and more transparent. And major progress has been made towards ending too-big-to-fail. Importantly, greater resilience has been achieved without impeding the supply of credit to the real economy.

With the finalisation of Basel III, the new global regulatory framework is now largely in place. For financial institutions, and market participants more generally, this means clarity and certainty about the key elements of international regulatory standards, and a reliable basis for planning ahead. For authorities, this means that the emphasis is shifting towards the full, timely and consistent implementation of the reforms, and the evaluation of their effects.

This shift in focus is also visible in the agenda of the FSB. For the remainder of this year our work will be focused on:

• Disciplined completion of the G20's outstanding financial reform priorities;

• Rigorous evaluation of implemented reforms, to ensure the reform programme is efficient, coherent and effective; and

• Vigilant monitoring to identify, assess and address new and emerging risks. I will take each of these tasks in turn.

Finalising the reforms

The first task is the disciplined completion of the outstanding financial reforms. These remaining areas of policy work concern mostly parts of the financial system that have gained in importance since the financial crisis – market-based finance and central clearing. To be sure, these developments are welcome and will, adequately regulated, help to make the global financial system more resilient.

On market-based finance, one priority is operationalising our 2017 recommendations to address the structural vulnerabilities from asset management. To this end, in July the International Organization of Securities Commissions will issue a consultation with proposals for developing comparable leverage measures for funds.

On central clearing, the FSB will deliver to the Buenos Aires summit an assessment to determine whether there is a need for any additional guidance on financial resources to support central counterparty (CCP) resolution and on the treatment of CCP equity in resolution. This follows the guidance on CCP recovery and resolution published last year which is being implemented in Crisis Management Groups for CCPs considered systemically important in more than one jurisdiction.

Let me briefly mention our work on misconduct. Last week, we published a toolkit[1] on the use of governance frameworks to mitigate misconduct risk. We hope firms and supervisors will consider this as they take steps to address the misconduct issues that have caused so much damage to the financial system. The toolkit completes an important element of the FSB's 2015 Workplan on Measures to Reduce Misconduct Risk.

Post-implementation evaluation

The second area is the evaluation of implemented reforms. The goal is to assess whether the G20 financial regulatory reforms are operating as intended and to make policy adjustments, if needed, without compromising on either the original objectives of the reforms or the agreed level of resilience. This should, of course, be an integral part of any effective policy process.

The basis for this work is the Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms,[2] which the FSB submitted to the G20 Summit in Hamburg last July. The application of the Framework by the FSB and standard-setting bodies will allow for dynamic implementation, thereby ensuring that reforms remain fit for purpose amidst changing circumstances.

Two evaluations are currently underway. The first is looking at the effects of the reforms on financial intermediation. The focus this year, during the Argentine Presidency, is on how regulatory reforms may have affected the cost and availability of infrastructure finance.

The second evaluation is on incentives for market participants to centrally clear over-the- counter derivatives. This is taking place in coordination with the relevant standard-setting bodies and in particular the Basel Committee on Banking Supervision's review of the effects of the leverage ratio on client clearing.

Evaluations face a number of methodological challenges, such as separating the effects of reforms from other factors; distinguishing temporary from permanent effects; and selecting appropriate reference points and counterfactuals for assessing outcomes. Addressing these challenges is easier for targeted evaluations than for cumulative impact studies covering a range of post-crisis reforms. To be credible, the evaluations should be based on high quality data and sound empirical methods, and cover both the social costs and benefits of the reforms. This latter consideration is particularly important since short-term costs are typically easier to measure than the longer-term benefits to society in terms of financial crises avoided or tempered.

We will publish consultations on both evaluations this summer, with the final reports delivered to the

Buenos Aires G20 Summit. We very much welcome evidence-based input and feedback from all stakeholders on our evaluations.

Looking ahead, the FSB will soon start looking into the effects of reforms on financing for small and medium-sized enterprises. This work is part of the broader effort to analyse the effects of reforms on financial intermediation. It will be one FSB priority under the Japanese G20 Presidency, and there are plans to evaluate the effects of the reforms aimed at ending "too- big-to-fail" by 2020.

Continued work to assess vulnerabilities

The third priority areas is monitoring of vulnerabilities. The FSB will continue its assessment of emerging risks in the financial system through the regular dialogue we have at our meetings, and through the joint Early Warning Exercise that we conduct with the International Monetary Fund.

Such risks may arise from a changing economic backdrop, but also be a by-product of an evolving financial system.

FinTech is one key example for the latter. Last year we delivered a report to the G20 assessing whether there were emerging risks from new technologies which concluded that there are three priorities for international collaboration, namely: the need to manage operational risk from third-party service providers; mitigating cyber risks; and monitoring macrofinancial risks that could emerge as FinTech activities increase.

We have also published reports on the financial stability implications of the development of artificial intelligence and machine learning in the finance sector and increased credit provision by FinTech players. This work and the ongoing dialogue have helped our members share their experience on regulation and supervision of these new entities and activities to understand emerging risks, and the benefits of these new developments.

The FSB's work on crypto-assets is yet another example. This work informed a nuanced assessment of crypto-assets, which the FSB Chair conveyed in his letter to G20 Finance Ministers and Central Bank Governors in March.[3] The main points are (i) that at this time crypto-assets do not pose a risk to global financial stability given that crypto-assets remain a very small part of the overall financial system; (ii) that crypto-assets raise a host of issues around consumer and investor protection, as well as their use to shield illicit activity and for money laundering and terrorist financing; and (iii) that, the technologies underlying crypto- assets have the potential to improve the efficiency and inclusiveness of both the financial system and the economy.

Conclusion

As I said at the start of my remarks, the FSB is at the start of a new phase, what one could call a post post-crisis world in which we expect to finish more than we start. In fact, over the course of 2017, the number of FSB working groups fell by 25% as those that have completed their policy work were disbanded. In many ways this reflects a normalisation of the work of the international standard-setters following the post-crisis response, and I suspect this will be welcome news for many in this room.

To make sure it is fit for the next phase, the FSB's membership is undertaking a thorough review of how the FSB works. The review will consider FSB transparency, consultation, mechanisms for setting our strategic agenda, and how to ensure efficiency in our member-led groups. In this way the FSB will continue to promote strong, shared international standards; dynamic implementation; and cooperation in financial regulation and supervision – all of which are essential building blocks to maintain a resilient, open international financial system. ■

1. FSB, Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors, April 2018 (http://www.fsb.org/2018/04/strengthening-governance-frameworks-to-mitigate-misconduct-risk-a-toolkit-for-firms-and- supervisors/)
2. FSB, Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms, July 2017 (http://www.fsb.org/2017/07/framework-for-post-implementation-evaluation-of-the-effects-of-the-g20-financial- regulatory-reforms/)
3. FSB, FSB Chair's letter to G20 Finance Ministers and Central Bank Governors, March 2018 (http://www.fsb.org/2018/03/fsb-chairs-letter-to-g20-finance-ministers-and-central-bank-governors/)

Bruce R. Thompson

Vice Chairman, Bank of America

David Wright

President, EUROFI

Brexit: Next steps and implications

David Wright

It is my great pleasure to introduce to you Mr Bruce Thompson. Thank you very much, Mr Thompson, for being one of our three lead sponsors with BNP Paribas and Crédit Agricole; it is much appreciated. According to my calculations, you have been in Bank of America for 22 years. If I am not mistaken, you have a wealth of experience, including being the Chief Risk Officer of the bank during the dark days of 2010 11. You then became the Chief Financial Officer from 2011 to 2015. We are greatly looking forward to your views about Brexit, the next steps and implications, and we are going to have a short discussion afterwards. Thank you very much for being with us.

Bruce Thompson

Thank you, David. Good evening, everyone. It is truly a pleasure to be here in Sofia for the Eurofi conference and to have the opportunity to address a room full of such distinguished guests. Coming from a slightly different tradition in the United States, the emphasis on non partisan expertise here in the EU is a somewhat refreshing change, even after hearing the discussion we just did. I know all of you will be looking forward to hearing the expert panel on Brexit that will follow shortly but, before that, I wanted to take a moment to set out some of the considerations that Brexit has led to for international firms, such as Bank of America Merrill Lynch. In doing so, I will touch briefly on some of our own thinking and some of the outstanding challenges, and share some of our thoughts for the future.

Let me start with our own thinking. David gave a snapshot of my background. I am a Vice Chairman of the company and the CEO designate of our new EU banking entity, subject to regulatory approval, which will be in Dublin. I have learned that, as I introduce myself, I need to emphasise the regulatory approval part of that. I will also tell you weather fans that, yesterday, it was 40°F and raining in Dublin so, even though it is warm in this room, feel good about where we are.

In the short term, my role is responsible for the overall planning and delivery of our Brexit programme. We have intentionally split the roles between those people who are dealing every day with clients and the role of Brexit, because we do not want to lose focus on the customers, which is one of the most important things we have tried to do through this process. As we look forward, Brexit clearly represents a significant challenge for firms like us. At the same time, I am confident that we will be fully prepared for Brexit by the time the UK leaves the EU.

As I mentioned, our overriding priority since the UK's referendum has been to ensure that we are able to serve our clients seamlessly post Brexit and obviously pre Brexit as well. As we look across the industry, many of our colleagues and competitors share that same view. If you think about the financial services industry, it is in a bit of an unusual time as we work through our Brexit planning. It is somewhat different because as we talk to and work with our clients they are asking us to help them solve their problems and address some of the uncertainty that comes along with them. As we try to understand that relationship with our clients, perhaps it is because we have gone through so much regulatory change as an industry that, as we looked at this, we were able to identify some of these issues earlier. Notwithstanding that, as you look across all industries, people are clearly more aware of the challenges and are working hard to solve them.

I hope that our sector's experience with regulatory change helps us to respond to some of the challenges coming out of Brexit. Once again – and you will hear me say this several times – keeping our clients front and centre is most important. As we think about our plans, it has clearly added depth as well as complexity to our Brexit planning.

With that as a lead-in, you are probably asking what we are doing. Early as part of our planning process, we decided that we needed to take a step and realise that the possibility truly existed of a hard Brexit. Our baseline for all of the planning we have gone through is a hard Brexit, so we can be fully in control of our preparations and how we move forward in a post Brexit world. Interestingly, as we have gone through and seen some of the challenges of consensus being developed, that approach has been very consistent with the approach that our primary banking supervisors have taken. Given the lead times and some of the changes we are making, it has been important that we took that view. We are starting to activate many of the different plans for Brexit.

That being said, a transition period, as recently agreed at the political level, will clearly be very helpful to the entire sector. We hope that that path continues, despite the different dialogues that occurred throughout this week. A transition period increases optionality, reduces the operational risk of the different changes associated with Brexit and it should diminish the risk of seeing a significant amount of market volatility post Brexit. However, we recognise that many uncertainties remain in the process and we have not slowed down our Brexit planning. One of my colleagues, Daniela, has taken me to Brussels many times and taught me the maxim from Brussels that, truly, nothing is agreed until everything is agreed.

As we have already announced from Bank of America's perspective, we will be merging our UK based bank with our Irish based bank. That will be our new European bank going forward. We already have a licensed bank in Ireland and our local employee base in Dublin, currently more than 700, is our largest outside of the UK and within the EU by some margin. As a result of our presence in Ireland, we have a longstanding relationship with the Central Bank of Ireland and are fully engaged not only with them but the European Central Bank, as we go through both our merger and authorisation process. We are excited about this merger process because we think, as we go forward, it should reduce complexity for our clients, particularly those of our corporate clients that rely on us for traditional banking services. In addition to our bank, we will be establishing a new investment firm in Ireland. That process is at a slightly earlier stage today than where we are with the bank merger.

What have the challenges been as we have embarked on this endeavour? The impact on our colleagues has been one of the most complicated things to deal with. Our people naturally want to understand and have clarity about their jobs. They want that so they can understand to what extent the changes may impact them, as well as their families. We are starting to see some of that clarity, but there is still more to come.

I will pause there for a moment. This dynamic with our people is very real. For those of us who are engaged in this full-time, it is easy to be caught up in the processes of mergers or charters in setting up new things, but this is truly a very human thing for our teammates.

In addition and as we would have expected, some of the discussions we have had were with our supervisors who, appropriately, are concerned about the right amount of capital to go into these new entities and the appropriate amount of oversight. That dialogue with our supervisors has been very helpful, from our perspective.

As we look at trying to reduce further uncertainties, I would encourage regulators and policymakers not to rule out the possibility of action relating to the continuity of contracts. At the same time as making that comment, we realise that there is more that we in the private sector can do to help educate people on the scope of those issues. Even outside of Brexit there are some moving pieces out there. For example, the proposal to require firms to establish a single holding company in the EU has needed careful consideration. I know there has been dialogue about that here, this week.

We take a step back and ask what the positives are. The original page they gave me was blank but, all kidding aside, there are some positives and opportunities out there. First, over a number of years, the company has slowly consolidated its presence in the EU into a smaller number of locations most notably, like our peers, London. With Brexit, it looks like the direction of travel will change and, as part of this process, we are taking the opportunity to put resources closer to some of our largest clients throughout Europe, as opposed to being concentrated in one location. This is not just a Brexit related phenomenon; we are also doing it in the US as we try to get closer to our clients there.

I would also like to highlight two additional potential opportunities that we think Brexit could contribute to improving. First, it would be great if it provided further momentum for the development of deeper European capital markets, thus completing the Capital Markets Union project. This remains an important prize for Europe and would be a strong driver of growth within the bloc. If we saw capital markets grow across Europe, continued access to one another's markets, whether mutual market access or by an enhanced equivalence framework, would bring benefits to both the EU as well as the UK economies.

Secondly, such growth would also be helped by a focus on global standards. As a global firm, we hope that Brexit could provide an opportunity for a greater focus on international standards and bodies as a means of delivering convergence between different jurisdictions. While this may appear to be a long term aspiration, it is an important step in recognising the globalisation of financial markets and would help streamline the significant regulatory cooperation that already takes place throughout the world.

Consensus is obviously not a particularly fashionable thing as we sit here today, but any fragmentation of financial markets and regulatory structures will have negative consequences on consumers and businesses. If they are affecting our consumers and our businesses, they are going to affect the economies within which we all operate. That is definitely something to be avoided.

As we at Bank of America look at the decisions we are making, we view them as commitments that we are making for decades ahead, not just for months or years. We truly are very excited about our future within Europe. Brexit clearly poses challenges and, at the same time, perhaps some opportunities. I look forward to hearing the panel discussing those in greater detail. David, I am going to hand it back to you for a couple of questions.

David Wright

Thank you very much, Bruce. In a way it was quite optimistic. I like the way you were trying to explain the opportunities. As you have been going through all this work at your bank, what has been the hardest part? Is it simply the uncertainty that is still with us? Is it the operational issues, the different rules you are facing or the people issues? What has been the toughest set of issues you have had to deal with?

Bruce Thompson

Some of that optimism may fade right now, David. The first thing I mentioned was that it is easy for this to be a focus within companies. The reality today is that we have clients that are looking to us to help and fix their problems today. Our customers and shareholders expect that. Making sure that you do not lose focus on your core business is one of the big challenges. As we look at our company we feel good about that progress. In the first quarter this year, we made just under $7 billion after tax, which is record profitability for our company, so we are excited about that.

I already touched on the second thing, which is the impact on people, so I will not repeat that. The third thing goes more into the operational aspect that you referenced. We are solving something for March 2019. Our assumption is a hard Brexit but, in reality, no one knows today exactly what it is we are solving and what the rules will be. You then get into a somewhat complex set of interdependencies. Most people are going through the process of setting up two new legal entities. When you do that, you have to go through an application and licensing process, basically as if you are establishing two new financial institutions that will, in aggregate, probably be above $100 billion once we are up and running. There is clearly a lot that goes along with that. You get into operational and systems aspects, but you also get into some of the interdependencies. From the time you are licensed, in many cases you need four months to be connected to exchanges. There is a very complicated set of interdependencies that we are working hard to try to get through to reduce the risk.

Your question at the end was most appropriate; we have a very short timeframe to do this. There is an enormous amount of operational risk across the industry and, as a result, the economies that emanate from that. As was referenced in the earlier panel, we have had a relatively benign market and favourable economic environment that will not necessarily continue forever, so we need to be prepared, as we set up these entities, to absorb whatever market risk and disruption comes from that.

David Wright

You mentioned some of the market and regulatory fragmentation issues. Is contractual continuity something that really worries you, from the bank's perspective? Do you think the regulators and the industry have to deal with this urgently?

Bruce Thompson

This is one of several things that needs to be dealt with. As we have gone through, across the company we have said that no whining is allowed. We realise that we cannot just say that this needs to be fixed; we have to help be part of the solution and work through it, so that it is understood and we are doing everything we can from a contract continuity perspective.

David Wright

When we were talking a week or so ago, you mentioned something very interesting, which maybe I can share. You said that Brexit has resulted in the bank reassessing the whole way it does business and where pieces of the business should be. Can you explain that a bit? Is it resulting in a revaluation of how you do business around the world in general?

Bruce Thompson

When I referenced that – and you have a good memory – the company and the business were run as a region. The legal entities of those operations basically emanated from where we needed to do certain activities. To be fair, the regulators were far ahead of us on this, as we go back to the crisis, with some of the resolution and recovery planning. We stand up these legal entities realising that they need to be run almost as standalone independent companies, with the governance, capital and liquidity that goes along with that. We need to be mindful that we just cannot say we are part of a $300 billion market cap company, so it will be okay. Through that and a lot of time, effort and expense, the hygiene that comes with the way we run our different legal entities and, ultimately, rolling up to the parent company, has been enhanced as we take some of the learnings from this.

David Wright

Thank you very much for being with us. You will be coming to Europe to head the bank in Dublin.

Bruce Thompson

That is correct. I am starting in Dublin on 1 May.

David Wright

Dublin has won a big prize. Thank you very much for being with us. ■

Vittorio Grilli

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

Strengthening of the financing of the EU economy

Ladies and gentlemen, after a very interesting series of discussions this morning on the risks and opportunities posed by Fintech, let me reflect on the other theme of today; 'strengthening the financing of the EU economy'.

Since the current European Commission took office in 2014, it has been its objective to foster the contribution of markets based finance to European growth. Important steps have been set to put together the building blocks for a Capital Markets Union by the end of the Commission's mandate in 2019. This project will however likely require the continued attention of the next Commission - and probably even the ones thereafter.

In my remarks, I will focus on three aspects of Capital Markets Union. First, European markets firstly need to deepen and become more integrated. For example by harmonizing insolvency rules, as the Commission has set out to do. Secondly, European markets need to be connected to the global system; to ensure that European borrowers can tap into lenders from all over the world. Thirdly, looking forward, we need to make sure our markets are made more sustainable for the future. Let me reflect a bit further on all three elements.

1. Deepening and integration of European markets

Firstly, let's talk about the need for deepening and further integration of European markets. A study from the think tank New Financial shows that companies in the EU27 (the EU without the UK) rely on bank lending for just under 80% of their debt funding. This compares to only 55% in the UK. Losing the 'London marketplace' for EU27 companies means that, without further action, markets based finance within the EU could decrease.

Over the past four years, a lot of good progress has already been made in this regard. First, legislation has been adopted to kick-start the securitisation market. Second, the Commission introduced a proposal for a European covered bond framework and a proposal for a pan-European Personal pension product. We especially note the report of the European Commission Expert Group on the corporate bond markets, which includes 22 important policy recommendations to make these markets more integrated, efficient and resilient. Finally, and most importantly, the Commission published an Insolvency Directive, which aims to make the overall insolvency procedure more efficient in Member States and offer companies a way out through the use of early restructuring frameworks.

However, the work is not done in this area. I hope that a successful adoption of the Insolvency Directive over the course of this year, will embolden a future Commission to take further steps in this regard. Before investors commit funding, they need to understand what happens to their money if their investment goes sour. A patchwork of 27 different legal regimes in Europe adds complexity and costs, which means that investors will stick to markets they already understand; which is mostly their home market. A lack of harmonization of rules thus complicates cross-border lending and ties banks to corporate borrowers in their country of origin. This makes credit provision more pro cyclical and more prone to local shocks.

The next Commission should therefore continue its work to harmonize the rulebooks that exist in the different Member States. But single rulebooks are not the only solution; their implementation is of equal importance. Investors would benefit from reforms in some Member States' court systems; which would speed up procedures and would guarantee fair and effective judgements.

2. Connection to the global system

The second key pillar of Capital Markets Union should be its openness to the rest of the world. The largest and most successful global financial centres are characterised by their openness, access to global pools of capital, their scale and financial ecosystem. These characteristics jointly facilitate cross-border business, enabling firms to provide the best services for their clients around the world.

Global asset managers play a crucial role in connecting European investors to a global universe of investments. They also bring a great deal of investment from the US, and increasingly Asia and Latin America, into Europe, fuelling our economies. Much of this comes currently right through London given it is a global asset management hub.

Investors located across Europe can access global investment expertise through UCITS and alternative investment funds. This is possible because investment management companies across Europe are able to delegate some of their services to other locations across the globe.

The delegation of portfolio management is a key example. This allows investors to access centres of excellence all-over the world. Investors can enjoy the security of robust EU rules, local supervision and excellent portfolio management in knowledge hubs which have the most market expertise in different types of securities.

Delegation, along with investor protection, liquidity and diversification, is one of the key pillars to the success of UCITS. Third country delegation is one of the key ingredients that has led to UCITS becoming the global gold standard of mutual fund which is being emulated in Asia.

In this regard, we should think carefully before introducing restrictions to these well-established market practices and the openness of European funds.

I realize that these messages, on the need for openness to global trade, are perhaps a bit more disputed than they were in the past. All over the world, we perceive in our discussions a more cautious attitude towards free trade and open markets than just three years ago. While we should acknowledge these concerns, in particular around the fair distribution of wealth generated by free trade, it is also important to consider the benefits of global business.

Fragmentation in global financial regulation costs about $800 billion annually, according to a report published recently by the International Federation of Accountants. Global coordination lowers these costs, which will benefit end investors and clients.

To avoid globally divergent approaches, the European Commission should continue to play an active role in international fora. Global agreements, such as Basel, should be implemented nationally or regionally across the globe. In case of deficiencies in these rules, they should be amended at a global level.

Furthermore, we believe there are opportunities to further refine and improve the existing equivalence frameworks. We have always argued that adopting a flexible and outcomes-based approach to assessing comparability across regimes would be preferable to performing a granular line-by- line analysis. The equivalence framework should also be strengthened by greater clarity and transparency on the equivalence assessment process itself. This should include clarity on the timeframes for the assessment and the mechanisms and grounds for withdrawal; including any notice periods for withdrawal.

But we would still argue that a market access arrangement stronger than equivalence – 'mutual recognition' as it is called by some – would be, in our opinion, beneficial for all.

3. Making markets and investments more sustainable for the future

As well as deepening and connecting, Capital Markets Union should also be about making markets and investments more sustainable for the future.

J.P. Morgan – as do many other institutions represented here in the room - takes sustainability very seriously. We realize there is significant transition of our global energy system underway and we are committed to advancing private sector leadership on this issue. Last year, as J.P. Morgan, we committed to source renewable energy for 100% of our global power needs by 2020, and to facilitate $200Bn in clean financing through 2025. This is one of the largest commitments by a global financial institution.

And at JP Morgan Asset Management – just like with the other asset managers here in the room – we are incorporating sustainability considerations into our investment decision-making, responding to an increasing focus of our clients on the environmental and social impacts of their investments. With this in mind, we would welcome an acceleration of an EU Sustainable Fund label, as currently, rival labels among Member States are causing confusion and complexity for international managers, to the detriment of savers.

We welcome the European Commission's recently published Action Plan for a financial system that supports the EU's climate and sustainable development agenda. Indeed, we believe the finance industry has a key role to play in achieving the aims of the Paris Agreement.

We welcome the proposed creation of an EU Sustainable Taxonomy and the development of an EU Green Bond standard based on existing best practices.

On the other hand, we have some concerns around the proposal to adjust the regulatory capital regime to accelerate the financing of a low carbon economy, as these rules are designed to protect financial stability only. But overall, we are certainly on the right track. We look forward to partnering with the public sector to create a more sustainable future.

Concluding remarks

Ladies and gentlemen, over the past four years important steps have been set towards the creation of a Capital Markets Union. These will strengthen the financing of the EU economy and will create jobs all-over Europe. While we should celebrate the successes, there is also an acknowledgment that the work will not be finished when the term of this Commission ends next year. Therefore, we all, public and private sector, should continue to work together to complete this crucial task in the years to come.

Ladies and gentlemen, please enjoy this afternoon's discussions. ■

Mugur Isărescu

Governor, National Bank of Romania

Closing Remarks

I am honored to be invited to give a few closing remarks at this EUROFI conference. EUROFI has turned, over the years, into a major European event that deals with financial issues.

The Great Recession compelled governments and central banks, regulators and supervisors of finance, to put into motion a radical reform of the ways financial industry does function. I do not wish to bother you with remarks that repeat what seems to have become a new conventional wisdom. However, it is never redundant to remember that oversize, too high leverage, unconstrained and reckless risk-taking, dangerous financial products, insufficient transparency, and, not least, poorly understood systemic risks, have forced the content and the pace of reforms. The European Institutions created a new regulatory framework after the eruption of the Crisis. The European Systemic risk Council (ESRB) represents the attention we all give to interconnectedness, to systemic risks that show up in financial markets. Not long ago, our widely embraced practices and thinking in central banking, in the regulation and supervision of finance, seemed like indestructible building blocks. The expansion of shadow banking, Fintech, non- conventional threats under the appearance of cyber-attacks, tail events in general, keep us vigilant and ask from us open-mindedness and constant reexamination of our beliefs.

There is much in the evolution of financial markets which provides puzzles; I am referring to the persistence of very low inflation in spite of large scale QEs, the flattening of the Philips Curve, the emergence of parallel currencies, etc. There is also a revival of attempts to control capital flows under the embodiment of macro-prudential means and a growing concern of central banks with financial stability. As a matter of fact, quite often, financial stability seems to have become the dominant goal of central banks in our turbulent times. Developments in the EU, which are pertinently reflected by the sessions of this EUROFI conference, indicate that, in spite of major progress achieved in redoing the regulation and supervision of finance, still much needs to be done. Some of the problems we do encounter are linked with the legacy of the Crisis and the years that preceded it.

It would be a shame if necessary reforms are not undertaken while there is a window of opportunity –as international financial organizations, European specialized bodies, including the ECB, emphatically argues. A slowdown is inevitable in time and it would be wise to have policy space at that time and more robust economies. But much depends on what governments do and whether they have the courage and social and the political support, apart from a critical mass of vision and well-articulated policies.

I do not wish to examine here issues related to reforms that go beyond the completion of the BU (Banking Union). But one thing is clear to me: unless the degree of diversity in the Euro area is smaller, unless economic divergence (that is illustrated by dynamics after the introduction of the euro) is reduced, further troubles will arise. Jacques de Larosiere, one of our doyens and a former president of EUROFI, never tires of pointing out this fact. Economic convergence is badly needed in the monetary union, where policy space for undertaking the correction of large external imbalances (deficits) is much diminished. I think that proposals made by the EC, by various governments, offer hope that better policies will be articulated in the not too distant future. Romania and other New Member States are bound (by the treaties of accession) to join the Euro area. And we care enormously that the Euro area, through its policy arrangements and tools, will enable economic convergence.

Coming from Romania, speaking today in Bulgaria, let me take this opportunity to share with you some of the challenges faced by non-euro Member States, in particular the ones in Central and Eastern Europe. Much has been said about growth and inflation in the euro-area, as well as about stage of the banking union. Less attention has been paid to Member States which want to join the banking union and the euro-area in the foreseeable future, but still need to implement structural reforms to get there. Their experience is relevant, nonetheless, for the Euro area Member States as well, as the common market and free movement of capital is a two-ways street.

Financial and business cycles in euro-area and non-euro area are not perfectly aligned. Growth is now much stronger in Eastern Europe, and the output gap has turned positive earlier than in the euro-area. Inflation has also reemerged in non-euro area. Some of it is cyclical, as it comes from international commodity prices, other supply side factors, but also from a strong domestic demand. Yet, some of it is structural, as any catching-up process is inflationary in nature. Higher wage growth pressure is normal, up to a point, in view of large wage differentials, migration flows, and labor market tightening. Despite the wage growth, CEE countries are becoming increasingly competitive, as productivity also grows. This is why the current account position of non-euro member states is better now than before the crisis.

The monetary policy normalization cycle runs also at a different pace. Even within CEE countries, while the monetary stance remains largely accommodative, the situation is quite heterogeneous regarding inflationary expectations, policy objectives, and policy tools used. As regards Romania, we started the tightening of monetary policy by hiking the rate twice this year, after further narrowing the corridor around the policy rate last year, but a gradual approach is warranted by the need to avoid sharp currency appreciation in the regional context.

In our case, the policy normalization has been supported by two favorable developments in the banking sector. First, the NPLs ratio dropped from 22% at end-2013 to 6.4% at end-2017, making it the largest adjustment in Europe over a relatively short time period. At the core of this adjustment were conservative requirements for provisioning NPLs, our hands-on supervision approach, and a fiscal facility that was conducive to the development of the secondary market for NPLs. Second, the share of local currency denominated loans in the total stock of loans has increased from one third prior to the crisis to two thirds nowadays. This reduced the contagion risk and improved the transmission mechanism of the monetary policy.

A somewhat higher inflation and an earlier start in the policy normalization cycle have to be considered in view of another challenge, which is the lower level of financial intermediation. Some countries are facing the dilemma recently portrayed in a Bruegel Institute paper, between raising inflation and decreasing appetite for risk, the latter being reflected in the lower levels of credit to GDP. The solutions adopted are diverse. While some central banks are embracing a higher inflation, and try to stimulate financial intermediation, others try to reign in inflationary expectations and have already started the tightening cycle. Nevertheless, the issue of financial intermediation remains important, as credit for the corporate sector would need to replace direct fiscal incentives in most of these economies as a driver of growth, if we want growth to remain sustainable.

The low financial intermediation in the banking sector comes, first of all, from the demand-side. Households' distribution of income and credit is more uneven in CEE than in euro-area; and corporate balance sheets have not been repaired to the same extent as the banks' balance sheets were. As for the alternatives on the supply-side, the capital market is thin, and the role of the other financial institutions is less important than that of banks – although there are some differences in country-level data.

This leads us to another challenge which has become increasingly important in non-euro Member States: the sovereign-bank nexus. Indeed, banks operating in non-euro area countries are more exposed to the domestic sovereign debt, as they hold a higher share of it. However, sovereign securities are the only highly liquid assets available in large amounts in small markets; hence banks have no realistic alternative to build liquidity buffers. Moreover, government debt levels in CEE are much lower than the euro-area average.

The contrast between high banks' exposures to sovereign debt and low government debt in non- euro countries emphasizes the structural challenges in these countries. Any solution for addressing the sovereign-banks nexus should account for the specificities of non-euro Member States, and in general of emerging countries not issuing debt in a reserve currency. In the spirit of European integration, any limit should be addressed to the banks' group level, not at the subsidiaries level – a solution which would help preventing fire sales and would not affect financial stability in these countries.

This takes me to the issue of integrated financial markets in Europe, not only in the euro-area. As Peter Praet mentioned in last year's Eurofi held in Malta, "private risk-sharing was the general principle of the new European rules such as the Bank Recovery and Resolution Directive (...) making banks equally liable across countries for the amount of risk they want to take into their respective balance sheet".

A pending issue for the completion of the Banking Union rests with the home-host approach in the resolution process. One of the main tasks within the resolution planning process for groups is to identify the most suitable resolution strategy and ensure its viability. Most of the resolution authorities and banking groups have embarked in a Single Point of Entry (SPE) resolution strategy at European level, acting according to their declared standing and European structure. The Single Point of Entry (SPE) resolution strategy is, by definition, the reflection of the idea of unity and cohesion, the purpose of the European Union.

When an MPE strategy is preferred, authorities must ensure the separability of the subsidiaries from the parent bank not only as a gone concern, but also as a going concern. If the local subsidiary does not act independently in its daily activities, it is unlikely that it will be able to do so in case of turmoil. According to European legislation, treasury functions, risk management and IT services are the most important areas of operational independence to be secured – and, therefore, they are at the heart of the home-host issue. This is particularly relevant for non-euro Members States from Central and Eastern Europe.

We agree that, at least until the conditions for an MPE strategy are met, the parent banks should continue to provide support for their subsidiaries. But how to do this it is a more delicate issue.

One way would be to transform subsidiaries into branches. Indeed, from an operational point of view the switch from subsidiaries to branches could bring some benefits. However, a higher burden will be placed on home countries' authorities, as these will have to take into account and protect financial systems and economies in the host countries. The home Deposit Guarantee Scheme (DGS) will be subject to a very high pressure in case the group fails and it must pay for the guaranteed deposits.

Although equal treatment and solidarity are desirable, the branches seem to escape the safety- net that has different patterns in each country. National legal frameworks for resolution and liquidation procedures would still be the main drivers in a failing situation, but these are limited.

An alternative solution for securing a de facto group financial support for the subsidiaries by using market instruments would relate to MREL (minimum requirement for own funds and eligible liabilities). If parent banks buy the local subsidiaries' eligible debt, this would represent a non- intrusive market solution for the problem of financial support, while observing the current resolution framework. Also, it would make central banks in CEE more likely to accept MPE (multiple point of entry) strategies in the future – as long as potential losses will be covered by parent banks.

The late Andrew Crockett, former General Manager of BIS, was one of the first to emphasize the important role of financial stability, distinct but complementary to price stability.

The aftermath of the recent global financial crisis has shown us that crisis management and resolution is also a public good, correlated with, but independent from, price and macro financial stability.

For financial integration in Europe to work, and for banking union to move forward, we should remember that there is one common market. The European legislation and the new proposals as well, which we broadly welcomed, do not refer to two asset classes of capital: inside and outside the banking union. Eventually, we will all be members of the banking union, and it is our joint responsibility to secure a level playing field. ■