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PROGRAMME

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BUCHAREST | 3, 4 & 5 APRIL

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The Eurofi High Level Seminar 2019

BUCHAREST | 3, 4 & 5 April

PROGRAMME

DAY 1 | 3 APRIL

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DAY 3 I 5 APRIL MORNING

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DAY 1 I 3 APRIL MORNING

10:00 to 10:30 GRAND BALLROOM

Opening remarks: **Is European financial integration stalling?**

SPEAKERS

Welcome remarks

David Wright
President, EUROFI

Didier Cahen
Secretary General, EUROFI

Opening remarks

Mugur Isărescu
Governor, National Bank of Romania

Mahmood Pradhan
Deputy Director, European Department, IMF

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DAY 1 I 3 APRIL MORNING

10:30 to 11:15 GRAND BALLROOM

Are sovereign debts sustainable in the EU?

High levels of public indebtedness were a key driver of the EU sovereign debt crisis and one reason why the recovery of the real economy has been so slow. This sovereign debt crisis has highlighted the importance of reducing public debt levels and building up sufficient buffers during normal and good times.

The objectives of this session are to discuss the issues related to sovereign debt sustainability in EU countries, the potential impact of changes in interest rates and the possible improvements in the EU fiscal framework, which could ensure fiscal discipline in all parts of the euro area.

SPEAKERS

Chair

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

Public Authorities

Per Callesen
Governor, Danmarks Nationalbank

Stephanie Pamies
Head of Sector, Sustainability of Public Debt, DG ECFIN, European Commission

Mahmood Pradhan
Deputy Director, European Department, IMF

Rolf Strauch
Chief Economist, Management Board Member, ESM

Expert

Andreas Dombret
Former Member of the Executive Board, Deutsche Bundesbank

POINTS OF DISCUSSION

Are some EU countries at risk of falling into debt traps and being notably vulnerable to an increase of interest rates?

How can Europe encourage more rigorous discipline in all parts of the euro area and the EU? Do we need debt restructuring processes in some EU countries?

Public debt vulnerabilities remain high in a small set of- mainly large- European economies

At an aggregate level, EU public finances compare positively to other advanced economies. The euro area government debt ratio has been decreasing since 2014 and reached less than 87% of GDP in 2018. At the same time, some other advanced economies exhibit much higher ratios (around 238% of GDP in Japan and around 106% of GDP in the United-States).

Fiscal positions of EU countries have improved visibly since 2016. All Member States, except Spain, have exited the Excessive Deficit Procedure (EDP), compared to 24 Members in EDP 2011.

But challenges remain in the European Union. The public debt is high in the euro zone excluding Germany. Fiscal risks are essentially concentrated on a small set of - mainly large - European economies. If most EU Member States have successfully managed to reduce their debt ratio over the last few years (notably in Austria, Netherlands and Finland), other countries – such as Italy, France, Spain and Belgium – are still faced with increasing or not sufficiently receding government debt ratios. Although Italian debt is significantly higher than that of France (130% versus 100% of GDP in 2018), unlike Italy, France has had a primary budget deficit for several years and its debt is mainly held by non-residents.

In addition, even though these expansive fiscal policies were put in place a long time ago in these highly indebted countries, they failed to increase their potential growth because they did not carry out sufficient structural reforms (of the labour market, the education system, support for innovative companies, etc.).

As long as we do not understand notably in indebted countries (France, Italy, Spain etc) that excessive debt is a source of under competitiveness, the economic situation will continue to deteriorate in these countries. Only domestic structural reforms can resolve structural issues and increase productivity and growth. It is an illusion to try to solve the structural problems of our economies by a prolonged increase in public or private debt. Yet this is what we have tried to do by pursuing lax fiscal, monetary and political policies that pose systemic risks to financial stability and therefore to future growth.

France and Italy notably are suffering from a supply problem, due to the decline in industrial production capacity, the deterioration in cost competitiveness, the low level of labour force skills and the low level of potential growth, especially in Italy. When demand increases in France and Italy, this increase in demand mainly leads to an increase in imports and not in domestic production. Increasing fiscal deficits in these countries could only lead to a noticeable rise in interest rates that may threaten fiscal solvency and dampen private sector demand.

In such a context, France urgently needs to rebalance its public accounts in order to reduce the excessive level of tax and contributions which are detrimental to the competitiveness of French companies. What is needed is a reduction of public expenses, which represented in 2018 56% of GDP compared to 41% in Spain or 43% in Germany and not a lesser increase.

Italy, for its part, needs to increase its potential output and reduce public debt, which represents a major potential source of financial spill over for the rest of the euro area. No illusions should be held over the capacity to stimulate demand in these highly indebted euro-zone countries.

The economic consequences of high government debt

We cannot see any positive outcome of the situation of high public debt in certain EU countries, notably considering the budgetary costs of population ageing (pensions, healthcare). For the public finances, higher rates increase the cost of the debt and make it more difficult to reduce the debt-to-GDP ratio. Higher long-term interest rates and a re-pricing of sovereign risk may reignite government debt sustainability concerns in the absence of further reforms and consolidation efforts.

In its Economic Bulletin (Issue 3/2016), the ECB explains the significant economic challenges raised by high government debt.

First a high government debt burden makes the economy more vulnerable to macro-economic shocks and limits the room for counter-cyclical fiscal policy. For instance, a rise in long-term interest rates may reignite pressures on more vulnerable sovereigns, thereby triggering a sovereign risk re-pricing.

Second a high government debt entails the need to sustain high primary surpluses over long periods, which may be difficult under fragile political or economic circumstances. Indeed, high primary surpluses are difficult to maintain under adverse economic conditions.

Third theoretical and empirical literature suggests that high government debt burdens can ultimately impede long-term growth. This is particularly the case when it is contracted to finance unproductive expenses. While country heterogeneity plays an important role, several studies reveal that detrimental growth effects may appear at levels of around 80-100% of GDP.

The debt rule in the EU fiscal framework has effectively not been implemented since the start of the EMU

All 28 EU member states are committed by the paragraphs in the EU Treaty, referred to as the Stability and Growth Pact (SGP), to implement a fiscal policy aiming for the country to stay within the limits on government deficit (3% of GDP) and debt (60% of GDP); and in case of having a debt level above 60% it should each year have a declining trend.

However, the Stability and Growth Pact regarding debt criteria has effectively not been implemented since the start of the EMU. In 2007, a number of countries recorded government debts to GDP ratios. Despite the different reforms which took place after the sovereign debt crisis, the public debt ratio in significant European Union countries continues to increase and is approaching 100% of GDP or even more in certain Member States.

Looking ahead, it should be ensured that compliance with the requirements of the debt reduction benchmark is not unduly delayed. This requires complementary policy action. A monetary union is not workable without economic convergence and fiscal discipline. The enforcement of the Stability and Growth Pact has been too lenient since 2003. EU Fiscal rules need to be enforced more rigorously and should be more binding and effective. By converging towards lower levels of government debt and regaining fiscal buffers, the euro area will increase its resilience and fiscal space to cope with potentially adverse economic shocks in the future.

DAY 1 I 3 APRIL MORNING

11:15 to 12:15 GRAND BALLROOM

Short-term implications of Brexit for the financing of the EU economy and financial stability

The objective of this session is to discuss the short term implications of Brexit for the European financial sector and more broadly for the financing of the EU economy and financial stability, taking into account the latest state of negotiations, the transitional arrangements defined and the changes that have been implemented or planned by the financial industry in anticipation for a possible no-deal Brexit (i.e. setting up of subsidiaries or new HQs in the EU, transfer of assets, contractual continuity provisions...).

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Giulia Bertezzolo
Secretary General, CONSOB

Mario Nava
Director, Horizontal Policies, DG FISMA, European Commission

Harald Waiglein
Director General for Economic Policy and Financial Markets, Federal Ministry of Finance, Austria and Member of the Board of Directors, ESM & EFC

Industry Representatives

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

POINTS OF DISCUSSION

Is the level of preparation of the financial industry sufficient to allow it to function smoothly and ensure continuity of service, whatever the outcome of EU-UK Brexit negotiations? Are end-customers up to speed? Are there still some important pending operational or supervisory issues? Are the transitional arrangements that have been granted bilaterally fit for purpose?

Given these preparations and the transitional arrangements in place, can any significant frictions or supplementary risks be expected from Brexit in the short term? What are the likely impacts (in terms of cost, complexity or risk) after the end of the transitional arrangements?

The Eurofi High Level Seminar

Bucharest April 2019

DAY 1 I 3 APRIL MORNING

11:15 to 12:15 | CONSTANTA ROOM

Benchmark regulation: implementation challenges

On 8 June 2016 the European Parliament and the Council issued a regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds. Replacing benchmarks or adapting underlying methodologies has proved challenging notably due to time constraints and current monetary policies, which reduce interbank transactions.

The objective of the session is to take stock of the progress made, and the legal and technical challenges ahead before the regulation is implemented in the EU.

SPEAKERS

Chair

Andreas Dombret
Former Member of the Executive Board, Deutsche Bundesbank

Public Authorities

Verena Ross
Executive Director, ESMA

Jean-Paul Servais
Chairman, FSMA, Belgium

Industry Representatives

Chris Allen
General Counsel for Clients and Products, Standard Chartered Bank

Timothy J. Bowler
President, ICE Benchmark Administration Limited

Angus Graham
Global Head of IBOR Transition, UBS

Carlos Molinas
Global Head of Business Compliance, Crédit Agricole CIB

POINTS OF DISCUSSION

What are the general regional and global challenges posed by the introduction of the new EU regulation on benchmarks? What is the volume of legacy contracts with maturities beyond the date of introduction of the new benchmarks? Are there any threats to financial stability notably related to the transition period and how should they be mitigated?

What are the main features of the transition plan regarding ESTER and related fragilities? What should be envisaged to address them? What are the challenges posed by the replacement of the EURIBOR?

What are the main legal risks regarding the reference to new RFRs both as fall-back provisions and to replace existing benchmarks in legacy contracts? What should be done to improve their legal soundness?

Benchmark interest rates are used across a large range of financial market instruments. Consequently, benchmark rates are also important for the assessment of monetary policies given their interconnectedness with the financial system but also because benchmark interest rates underpin a substantial part of retail borrowing in the euro area.

Yet attempted market manipulation and the false reporting of global reference rates, together with the post-crisis decline in liquidity in interbank unsecured funding markets have led to a significant drop in underlying transaction volumes as well as the stronger role of non-banks in managing liquidity, and have undermined confidence in the reliability and robustness of existing interbank benchmark interest rates.

To address these issues international supervisory and standard setting bodies undertook a fundamental review and reform of major interest notably regarding benchmark designs and their governance. Eventually, the FSB endorsed the IOSCO Principles for Financial Benchmarks. Furthermore, a Market Participant Group recommended the strengthening of existing IBORs by underpinning them to the greatest extent possible with transaction data and finally to developing alternative, nearly risk-free reference (RFR) rates that better suit certain financial transactions, including many derivatives transactions. In the EU, these efforts have resulted in the adoption of the EU Benchmark Regulation.

In this context, EONIA and EURIBOR which have both been designated as "critical benchmarks", do not currently comply with these requirements, and may be prohibited use, at least in new contracts. It is also uncertain whether their use in legacy contracts will be permissible. The volume of legacy contracts with maturities beyond 2019 is substantial. Notably a quarter of outstanding interest rate derivatives using EONIA and more than half using EURIBOR have maturities in 2020 or later. 80% of floating-rate debt securities using EURIBOR – worth almost €1.5 trillion – also extend beyond 2019.

Therefore, in September 2017, the ECB, the Belgian Financial Services and Markets Authority (as lead supervisor of both EONIA and EURIBOR), the European Securities and Markets Authority and the European Commission launched a new private sector working group. The group was entrusted with the identification and adoption of risk-free rates to serve as a basis for an alternative to the current benchmarks. This group recommended ESTER -to be produced by the ECB - reflecting euro area banks' borrowing costs in the wholesale unsecured overnight market - as the euro risk-free rate to replace EONIA.

However, progress towards the development of alternatives for longer tenures is expected. As far as EURIBOR is concerned, the European Money Markets Institute (EMMI) is working out the features of a new compliant benchmark, based on a hybrid methodology using actual transactions whenever available, and relying on other related market prices when required, which should still entail expert judgement in order to sustain daily benchmark publications on longer tenures. However, ECB would not be well placed to produce term rates (as opposed to overnight rates), as the central bank may not have the same overview of the prevailing market conditions and funding costs as banks.

Even producing ESTER which requires building the infrastructure, defining processes and governance, and testing operations, has proved challenging notably due to a very tight timeframe. An early release of the new rate should allow market participants to be better prepared for and understand the properties of ESTER. But too fast a publication which reduces the testing period, might entail operational risk. Robust business continuity and contingency plans must also be developed. Consequently, the ECB should be in a position to publish ESTER by October 2019, although the usage of EONIA will, should be restricted as from 1 January 2020. However, a pre-ESTER will be provided for market participants.

Finally, an extension of the transition period in the European Benchmark Regulation (BMR), is expected, potentially for a further two years – taking it to a new end date of 31 December 2021.

The ICMA together with AFME, ISDA, SIFMA and SIFMA AMG published in June 2018 the IBOR Global Benchmark Transition Report.

Three workstreams have been respectively focused on (i) identifying and recommending a term structure on the RFR; (ii) contractual robustness for legacy and new contracts; and (iii) transition from EONIA to ESTER.

On 20 December, the working group called on to comment on its technical analysis of the paths available for transitioning from EONIA to ESTER, as well as on its recommendation of the preferred transition option. These recommendations advise that EMMI, as the administrator of EONIA, should modify the current EONIA methodology (EONIA-ESTER spread approach) and define a transition period which should last until the end of 2021, before discontinuing the publication of EONIA that ensures firms can achieve transition to ESTER in a smooth manner. The working group also recommends that market participants should gradually replace EONIA with ESTER as a reference rate for all products and contracts. Finally, the working group encourages market participants to make all reasonable efforts to replace EONIA with ESTER as a basis for collateral interest for both legacy and new trades with each of its counterparties.

Regarding the EURIBOR, a hybrid methodology has been designed. By Q2 2019 panel banks will move from the current EURIBOR methodology to the hybrid methodology – with a view to finishing the process before the end of 2019. This will allow EURIBOR to become a BMR compliant benchmark but does not solve longer-term concerns – that there are relatively few actual transactions in each tenure on a daily basis and that panel banks could prove reluctant to have to continue submitting rates. Pressure to transition away from EURIBOR use should be expected. Mid-February, EMMI stressed the fact that its hybrid methodology to calculate EURIBOR, received broad support in the consultation it undertook, and consequently announced its intention to file for an authorization to the Belgian Financial Service and Market Authority by Q2 2019.

Ensuring that there are robust fall-back rates identified and that documentation references to such fall-back rates are indispensable. A consultation ended 1 February on alternative ESTER-based term structure methodologies (probably both backward-looking and forward-looking to address cash flow forecasting needs and for managing interest rate risk) that can serve as a fall-back for EURIBOR- linked contracts. Assessing such risk-free term rates necessitates a successful transition from EONIA to ESTER with a significant transfer of liquidity to ESTER OIS markets as well as a transparent and regulated underlying derivatives market and sufficient sources of data to capture the majority of market activity. However, the working group expressed beforehand a preference for the OIS quote-based methodology. An assessment of the success factors of a broad market adoption of the recommended term RFR (Risk Free Reference) is also necessary.

Finally, key points of attention are the legal risks and impact of embedding fallback provisions referencing newly defined RFRs, the replacement of references to EONIA and EURIBOR with references to newly defined RFRs in legacy contracts, and to define solutions to embed fallback replacements where appropriate, for EONIA and EURIBOR, as well as measures to enhance the legal soundness of references to newly defined RFRs.

Information relating to the current legal frameworks and market practices in relation to EONIA and EURIBOR references, in contracts for cash products and guiding principles for more robust fall-back clause is expected.

DAY 1 | 3 APRIL AFTERNOON

13:30 to 14:30 GRAND BALLROOM

Key macro and micro risks that may affect EU financial markets

Ten years have passed since the onset of the worst financial crisis since the Great Depression. Since then, historically low, even negative, interest rates and unprecedentedly large central bank balance sheets have provided important support for the global economy. Persistently low interest rates facilitated notably a deleveraging in those countries and sectors that were at the epicenter of the crisis – in particular, households and banking sectors in major advanced economies.

The last financial crisis was activated by rapid leveraging, particularly in the US but current global leveraging is moving faster than during the pre-crisis period. Financial conditions are indeed easier than before the Great Financial Crisis (GFC) when many investors, households, corporations and sovereigns were caught out in the rain with no umbrella. But, lasting very low interest rates have triggered a continuous rise in the global stock of debt, private and public. The world is now 12 per cent of GDP deeper than the previous peak in 2019. Experience shows that in a cyclical upswing, it is wise to raise interest rates in order to create margins to reduce them when the next recession comes.

The most damaging consequence of the crisis has probably been the postponement of the implementation of pro-growth structural reforms. Accommodative financial conditions cannot boost long-run growth potential. Implementing growth-friendly structural reforms will become harder as monetary accommodation is withdrawn. And there is no denying that the room for manoeuvre in terms of monetary and fiscal policies is narrower today than 10 years ago. In addition, the continued growth of nonbank finance requires further efforts to properly monitor risks and react appropriately through regulation and supervision.

The objective of this exchange of views is to identify the main vulnerabilities that may still affect the resilience of the global and EU financial systems and to assess whether the post crisis regulatory reforms are able to mitigate them compared with the pre-crisis situation. The sustainability of sovereign debts will not be covered in the session since this will be discussed in another session of the Bucharest Seminar.

SPEAKERS

Chair

Gaston Gelos
Assistant Director & Chief, Monetary and Macroprudential Policies Division, IMF

Public Authorities

Denis Beau
First Deputy Governor, Banque de France

Francesco Mazzaferro
Head of the ESRB Secretariat, ESRB

Fernando Restoy
Chairman, Financial Stability Institute, BIS

Industry Representatives

Sylvain Broyer
Chief Economist EMEA , S&P Global Ratings

Tomo Ishikawa
Head of Global Regulatory Affairs, MUFG

POINTS OF DISCUSSION

What are the main vulnerabilities in the financial sector at the EU and global levels in the context of the normalization of monetary and fiscal policies: e.g. level of indebtedness, increasing protectionism, asset bubbles, leverage or liquidity issues, cyber and other risks associated with technological innovation, weak bank profitability in the euro area hampering bank intermediation capacity ...?

What are the financial stability risks that are emerging as a result of the growing of non-bank financing? What are the main activities/products/players concerned?

Are existing regulations and supervisory arrangements sufficient to mitigate these vulnerabilities? What additional elements may be needed at the global, EU and national levels?

Considerable progress has been achieved over the last decade in strengthening the resilience of the financial system

The post crisis financial reforms not least Basel III and the implementation of macro prudential frameworks have bolstered the financial system. Banks are now better capitalised, more resilient and better able to cope with financial instability. Other reforms, such as minimum requirements for global systemically important banks' (G-SIBs) total loss-absorbing capacity, enhanced bank resolution regimes and the central clearing of all standardised derivatives contracts, are being implemented in parallel.

Given how much levels of debt have risen over the decade, risks ahead are material

Persistent low funding costs and the search for yield environment can lead to the mispricing of risks and encourage excessive risk taking.

Lasting very low interest rates have triggered a continuous rise in the global stock of debt, private and public, in relation to GDP. Global debt is at historic highs. Total nonfinancial sector debt—borrowings by governments, nonfinancial companies, and households—has expanded at a much faster pace than the growth rate of the economy. As a result, total nonfinancial debt in countries with systemically important financial sectors stands in 2017 at $167 trillion, or over 250 percent of aggregate GDP compared with $113 trillion (210 percent of GDP) in 2008. The world is now 12 percent of GDP deeper in debt than at the previous peak in 2009.

The continuous accumulation of debt is worrying for at least two reasons. First, the higher the debt, the more sensitive the economy and financial valuations are to higher interest rates. This, in turn, makes it more difficult to raise them, favouring further debt accumulation – a kind of "debt trap". Second, higher debt – private and public – narrows the room for policy manoeuvre to address any downturn. Experience shows that in a cyclical upward episode, it is wise to raise interest rates in order to create margins in order to reduce them when the next recession comes.

High sovereign, corporate and household debt levels in many parts of the world could expose the financial system to market losses, rising credit defaults and increased rollover risk as monetary conditions tighten. Indeed, over extended corporations can experience difficulties to service their debt when growth slow down.

Looking ahead, a sharp tightening of global financial conditions could be trigged by a further escalation of trade tensions or by a sudden shift in risk sentiment caused by rising geopolitical risks or policy uncertainty in major economies (For example, uncertainty about fiscal policy in some highly indebted euro area countries could damage confidence in financial markets).

The toolkit needs to keep pace with new developments in the non-bank financing area

Non-bank institutional asset managers, ranging from investment management companies to pension funds and insurers have grown strongly over the past decade. Their total assets are estimated at nearly $ 160 trillion according to the BIS, exceeding those of banks worldwide.

Certain asset management products and activities may create potential financial stability risks particularly in the area of liquidity and redemption, leverage, operational functions, securities lending, and resolvability and transition planning. Many of these risks are now mitigated by funds legislation notably in the EU.

Strong demand for high yield debt has been accompanied by lower covenant protection for lenders/investors

Over the past decade, we have seen, in the current intense search for yield, both nationally and internationally, often reflecting excessive risk-taking by investors. This has dramatically compressed risk premia, including term premia and credit risk premia in corporate and EME sovereign yields.

In a recent speech A. Carstens explained that In the United States and Europe, the volume of high-yield bonds and leveraged lending has picked up in recent years, and leveraged loans tend to have fewer covenants. One driver of this surge is the revival of collateralised loan obligations, which have grown steadily in volume.

According to the Financial Stability Board, roughly $1,4 trillion in institutional leveraged loans, or loans purchased by institutional investors other than syndicate banks, was estimated to be outstanding globally as of October 2018. This outstanding amount of leveraged loans is even higher if the amount that syndicate banks retain on their balance sheets is taken into account. Available data suggest non-banks purchase the vast majority of leveraged loans in the primary market and therefore have greater exposure to potentially adverse market developments.

Improving macroprudential tools for reducing systemic risk where financial vulnerabilities are building up

Macroprudential frameworks have become a key new element of the post-crisis financial reforms designed to ensure financial stability. The development of a macroprudential perspective and the creation of macroprudential authorities in many countries has contributed to a more holistic assessment of risks in the financial system, including the nonbank sector. This is important because the Great Financial Crisis (GFC) and previous crises have shown that vulnerabilities may build up across the system even though individual institutions may look stable on a standalone basis.

Macroprudential instruments in the EU are for the most part aimed at the banking sector, given the predominance of bank-based finance at the time that the initial response to the global financial crisis was designed.

But more must to be done: to better identify risks and calibrate the tools; to develop tools that target the non-bank sector; and to implement mechanisms to address cross-country leakages. To deal effectively with systemic risks stemming from asset management funds and other institutional investors, close cooperation among the various authorities involved is crucial: central banks, bank regulators, insurance regulators and securities regulators.

DAY 1 | 3 APRIL AFTERNOON

14:30 to 15:30 GRAND BALLROOM

Challenges posed by the sovereign-bank loop in the EU

The sovereign debt crisis that erupted in the euro area in 2010 highlighted again the fact that bank risk and sovereign risk are closely intertwined. Sovereigns were indeed exposed to banking risk, and banks were exposed to sovereign risk.

Therefore, the major objective of the Banking Union was to weaken the feedback loop between banks and sovereigns so that increases in banks' credit risk would no longer be reflected in sovereign risk and, conversely, banks' financing costs would no longer be driven by their sovereign's creditworthiness.

The objective of this session is to discuss to what extent this loop has changed since the creation of the Banking Union and to assess the impacts of the quantitative easing policy of the ECB on this issue. Speakers will then be invited to express their views on the essential features of the required solution (fiscal discipline, strengthening of the banking sector, prudential regulatory measures).

SPEAKERS

Chair

Denis Beau
First Deputy Governor, Banque de France

Public Authorities

Benjamin Angel
Director, DG ECFIN, European Commission

Burkhard Balz
Member of the Executive Board, Deutsche Bundesbank

Mario Nava
Director, Horizontal Policies, DG FISMA, European Commission

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Director General, Financial Stability, Regulation and Resolution, Banco de España

Isabelle Vaillant
Director of Regulation, EBA

Industry Representatives

Søren Holm
Group Managing Director, Chief Risk Officer, Nykredit

David Vegara
Chief Risk Officer, Banco Sabadell

POINTS OF DISCUSSION

What are the main evolutions in the sovereign-bank loop in the EU?

How to better address the sovereign bank loop in the euro area?

The feedback loop between banks and their sovereigns escalated the financial crisis in Europe into a sovereign debt crisis

The sovereign debt crisis that erupted in the euro area in 2010 highlighted again that bank risk and sovereign risk are closely intertwined. In some countries (Ireland, Spain), the problems arose from a major and unsustainable growth in bank lending, as well as from poor risk management. In these countries, the central government had to provide substantial financial assistance in order to prevent a collapse of the banking sector that would have shaken the whole financial system. In countries where the root cause of the problems was excessive government indebtedness, domestic banks ultimately ensured their sovereign's access to financing. In both cases the outcome was identical: both banks and the sovereign ended up in significant distress, and external financial assistance was required to solve the problem.

In other words, domestic bank risk can weaken a country's public finances in case troubled banks require government support, while domestic sovereign risk can weaken bank balance sheets through banks' holdings of government debt. The feedbacks between bank and sovereign risks can lead to a `doom loop', as a result of which both banks and their sovereigns can end up in a crisis simultaneously.

The Banking Union was precisely designed to weaken this feedback loop between banks and their sovereigns. 7 years after its creation, it is appropriate to consider whether progress has been made in this area.

Banks' exposures to their sovereigns are still significant in certain high-indebted countries (Italy, Spain, Portugal)

The ESRB report on the regulatory treatment of sovereign exposure (March 2015) and the CEPR analysis of M. Lanotte and P. Tomasino (February 2018) show that in most euro area countries, euro area sovereign debt exposures of banks (as a proportion of total assets) were considerably larger at the inception of the Economic and Monetary Union than they are now.

After a reduction in the first half of the 2000s, banks in stressed euro area countries have gradually increased their euro area sovereign debt holdings again (as a proportion of total assets) in the last eight years. In contrast, banks from other euro area countries either continued to reduce or stabilised their euro area sovereign debt exposures.

In almost all euro area countries, the euro area sovereign debt exposure of banks is overwhelmingly towards their domestic issuer, and this home bias is particularly strong in the countries where banks' total euro area sovereign exposure is largest (as a proportion of total assets). Italian banks are the most exposed in Europe, holding €387bn of domestic sovereign debt, equivalent to about 10% of their total assets, according to data from the ECB.

In general, banks in stressed euro area countries increased their exposure to domestic sovereign debt in response to increases in its yield. This response may have been motivated by different factors, including banks' search for yield by engaging in carry trades that take into account redenomination risk, the desire to increase holdings of liquid assets etc. For a more limited range of countries, there is also some evidence that banks in stressed countries increased their sovereign exposures in response to worsening domestic macroeconomic conditions.

Almost 60 percent of French, German, Italian, and Spanish banking groups' exposure to euro area sovereigns, for instance, is concentrated in securities issued by the home sovereign. Similarly, 60–80 percent of French, Italian, and Spanish Insurance companies' investments in sovereign debt are in home-country bonds.

Whatever the motive, the exposure of banks in stressed euro area countries to domestic sovereign debt has increased concurrently with an increase in the risk of such debt, therefore increasing risk in these banks' balance sheets and reinforcing the banks-sovereign link, which is itself a source of systemic risk.

The sovereign doom loop also affects central banks with large holdings of government bonds purchased as part of QE programs

The quantitative easing policy of the ECB has led to a doubling of the Eurosystem's balance sheet from €2,150 billion at the end of 2014 to €4,620 billion in September 2018. As a result of the Public Sector Purchase Programme of the ECB, the share of government bonds held by NCBs surged in the last three years from around 5% to 15-20% of total outstanding government bonds.

But this policy has not reduced the vicious circle between Sovereign and banks in euro area highly indebted countries, as explained above. On the contrary, quantitative easing programs encouraged institutions to borrow cheaply from central banks and invest in government bonds with higher returns. In addition, in Italy, the end of the European Central Bank's QE program and domestic political instability — have increased the problems of financial institutions already laden with significant nonperforming loans.

The linkages between governments and banks are now extended to central banks and this casts a special light on the independence of the central banks.

At the global and EU levels, there is no momentum for changing the regulatory treatment of sovereign exposures

For decades, the regulatory treatment of sovereign debt has significantly discounted and, in many cases, ignored the possibility of default on exposures that are denominated and funded in the country's own currency.

In most cases, the existing treatment of sovereign exposures is more favourable than other asset classes. Most notably, the risk-weighted framework includes a national discretion that allows jurisdictions to apply a 0% risk weight for sovereign exposures denominated and funded in domestic currency, regardless of their inherent risk. This discretion is currently exercised by all members of the Basel Committee on Banking Supervision. Sovereign exposures are also currently exempted from the large exposures framework. Moreover, no limits or haircuts are applied to domestic sovereign exposures that are eligible as high-quality liquid assets in meeting the liquidity standards. In contrast, sovereign exposures are included as part of the leverage ratio framework.

The Basel Committee published a discussion paper on the regulatory treatment of sovereign exposures in December 2017, but it did not reach a consensus on making any changes to the regulatory treatment of sovereign exposures.

Fiscal discipline should be the essential feature of the required solution

When States are sanctioned by the market because of their excessive indebtedness, and when commercial banks are saddled with huge amounts of sovereign instruments issued by their country, the weakening of State ratings is automatically reflected in banking balance sheets. Fundamentally, the problem comes from lack of fiscal discipline, excess liquidity created by lasting loose monetary policy as well as from the lack of macroeconomic coordination, more than from banking weaknesses. Therefore, fiscal discipline in all parts of the euro area and in particular in high indebted countries would effectively improve sovereign debt sustainability and reduce the risk of sovereign-related distress.

DAY 1 I 3 APRIL AFTERNOON

14:30 to 15:30 CONSTANTA ROOM

Insurance comprehensive risk framework

Since systemic risk may arise from both the collective activities and exposures of insurers, policy measures that only apply to a relatively small group of insurers may prove insufficient.

Consequently, the International Association of Insurance Supervisors (IAIS) has consulted on a holistic framework for the assessment and mitigation of systemic risk in the insurance sector. The framework encompasses supervisory policy measures and powers of intervention, as well as a global monitoring framework that will complement the macroprudential surveillance by national supervisors.

In 2019 the IAIS should translate the framework into IAIS into the Insurance Core Principles (ICPs) and ComFrame. A public consultation in scheduled for June 2019. The implementation of the holistic framework is expected to begin in 2020.

This session is dedicated to underlining the essential features of the framework as well as the challenges that its swift implementation raises.

SPEAKERS

Chair

Dimitris Zafeiris
Head of Risk and Financial Stability Department, EIOPA

Public Authorities

Alberto Corinti
Member of the Board of Directors, IVASS

Jonathan Dixon
Secretary General, IAIS

Frank Grund
Chief Executive Director of Insurance and Pension Funds Supervision, BaFin

Industry Representatives

Joseph L. Engelhard
Senior Vice President, Head of Regulatory Policy Group, MetLife, Inc.

Eugenie Molyneux
Chief Risk Officer of Commercial Insurance, Zurich Insurance Group

POINTS OF DISCUSSION

What are the main sources of systemic risk in the insurance sector identified by the IAIS, which require systematic assessment and surveillance?

What are the regulatory priorities and the envisaged time-table for the detailed definition and implementation the forthcoming "holistic framework for systemic risk in the insurance sector" globally and in the EU, and what will be the role of the IAIS in this respect?

What are the key supervisory measures envisaged? What is the expected role of national, regional and global supervisory authorities (notably, FSB, IAIS, EIOPA...)?

What are the anticipated challenges and related success factors to achieve an adequate implementation of the forthcoming framework globally and in the EU?

EUROFI MEMBERS

Allianz
American Express
Amundi Asset Management
AXA
Bank of America Merrill Lynch

Barclays
BBVA
BlackRock
BME Spanish Exchanges

BNP Paribas
BNY Mellon
Groupe BPCE
Caceis Investor Services
Groupe Caisse des Dépôts

CaixaBank
cbp
CLS trusted market solutions
CNP Assurances
Covea
Crédit Agricole S.A.

Credit Suisse
Deka
Deutsche Bank
Deutsche Börse Group
DNB
DTCC

Erste Group
euroclear Post-trade made easy
Euronext
European Investment Bank The EU bank 60 years
Federated

Fidelity International
Finanzgruppe
Goldman Sachs
Le Groupe Groupama
HSBC

ice
ING
J.P.Morgan
KPMG
La Banque Postale
LCH The Markets' Partner

MetLife
Mizuho
Moody's
Morgan Stanley
MUFG

Nasdaq
Nomura
Nordea
Nykredit
pwc

Raiffeisen
Sabadell
Santander
SMBC
Societe Generale

Standard Chartered
S&P Global
State Street
SWIFT
Swiss Re

Tradition
UniCredit
UBS
Western Union WU
Zurich

DAY 1 | 3 APRIL AFTERNOON

15:30 to 16:30 GRAND BALLROOM

AML-TF: improving supervision and detection

To close certain loopholes in existing money laundering rules and to make it easier for the authorities to detect and stop suspicious financial flows, EU legislators had approved measures to combat terrorist financing, by preventing money laundering and tightening cash flow checks.

Furthermore, a 5th Anti Money Laundering Directive was adopted on 19 April 2018. It laid down notably that national prudential competent authorities and the SSM should conclude an agreement on the practical modalities for exchange of information. That agreement was agreed upon in January 2019.

The Directive also defined certain conditions for improving the exchange of information between banking supervisors and AML authorities, in particular addressing issues regarding professional secrecy obligations; in this respect it makes an important distinction between information exchange between (i) authorities in the same Member State and (ii) across Member States including the SSM.

The aim of the Commission is to reinforce the AML supervisory framework, by anchoring AML in prudential supervision and enhancing cooperation between AML supervisors and prudential ones. The Commission's objective is to further:

- Develop guidelines notably in terms of effective cooperation, identification of risks, and prudential supervision of AML risks;
- Strengthen the AML supervisory framework by entrusting the European Banking Authority (EBA) with new powers and by requiring the EBA to act in certain domains.

Eventually, the EU Commission will conduct a more fundamental review of the AML supervisory framework at a later stage.

In this context, the Joint Committee of the three European Supervisory Authorities launched in November 2018 a public consultation on draft guidelines regarding the cooperation and information exchange between competent authorities. Such Guidelines propose in particular the creation of AML/CFT colleges of supervisors for AML supervision.

In parallel, the EBA has identified a number of areas where additional changes to the Capital Requirements Directive would be instrumental in addressing deficiencies in Union law: (i) better incorporation of AML into supervisory actions and (ii) better cooperation of AML authorities and prudential supervisors, (iii) institutional changes.

Therefore, the objectives of the Session are to take stock of all that has already been initiated, but also to identify what are the additional key initiatives from EU financial institutions that should contribute to significant progress in AML-TF in a context of recent serious breaches of AML rules.

SPEAKERS

Chair

Adam Farkas
Executive Director, EBA

Public Authorities

Jesper Berg
Director General, Danish FSA

Līga Kļaviņa
Deputy State Secretary on Financial Policy, Ministry of Finance, Republic of Latvia

Liviu Voinea
Deputy Governor, National Bank of Romania

Industry Representatives

Duncan DeVille
Global Head of Financial Crimes Compliance, Western Union

William Morgan
Financial Crime Policy, Group Public Affairs, HSBC Holdings plc

POINTS OF DISCUSSION

What are the main lessons learnt from the recent Money Laundering cases unveiled in the EU, notably regarding the respective responsibilities of host and home supervisors, the SSM, whether they are in the banking union or not...? Are information flows among the different authorities involved in the supervision of financial entities adequate? Are existing laundering risk assessment tools and indicators sufficient?

What are the main regulatory and supervisory evolutions envisaged by both the anti-money laundering action plan issued in November 2018 by the Council, and its December decision to reinforce EU supervisory arrangements? What are the expected roles of the ESAs and in particular of the EBA which should become the EU AML supervisory authority?

What are the remaining issues notably those regarding the consistency of sanctions, and the implementation of the AML framework in EU member states? Are the role and the powers of the ABE sufficient?

Is the current political impetus up to the challenge notably in the context of the US aggressive de facto extraterritorial jurisdiction and the forthcoming EU elections?

15:30 to 16:30 | CONSTANTA ROOM

Data protection, fairness and sharing

One year after the Analytica data scandal and the enforcement of the GDPR in the EU and similar legislations in other geographies (e.g. in June California passed a similar bill which will enter into effect in January 2020), this session is meant to assess the challenges faced by financial institutions, which result from rising data-related competition, as well as the anticipated evolutions and adaptation issues related to recently adopted regulations, notably in terms of business models, the evolution of financial services, culture and governance.

SPEAKERS

Chair

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

Public Authorities

Kostas Botopoulos
Advisor to the Governor, DPO, Bank of Greece

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

Simona Şandru
Head of Complaints Department, National Supervisory Authority for Personal Data Processing, Romania

Industry Representatives

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

Joe Cassidy
Partner, KPMG in the UK

Patricia Plas
Head of Public Affairs, AXA Group

POINTS OF DISCUSSION

What are the challenges brought about by new regulations on data privacy and more importantly by the rising expectation of customers and citizens in this respect, that should be considered notably by financial intermediaries? What are the observed or anticipated impacts on the relationship between financial institutions and their customers? What are the possible evolutions of the value proposition of financial institutions in this context? How is the playing field evolving notably between incumbents and BigTechs?

What are the main regulatory challenges required to guarantee effective and fair data privacy globally and across sectors? What are the positives and negatives of the provision of legal definitions for data privacy? What issues do such (regional) regulations raise?

Which operational challenges must be faced in order to deliver "privacy by design"? What are the remaining shortfalls to address in order to achieve an adequate level of privacy without any detrimental impact on innovation? Is the portability of data really demanded by customers? What is the expected role of Corporate Social Responsibility (CSR) teams beyond data privacy regulations?

DAY 1 I 3 APRIL AFTERNOON

16:45 to 17:45 GRAND BALLROOM

Addressing sustainability risks in the financial sector (prudential requirements, stress tests...)

At both the global and EU levels the regulators are facing a twofold challenge. They have to assess and mitigate unprecedented types of risks i.e. climate related ones involving long term externalities, at the level of individual financial entities and the whole financial system, and - at the same time - to contribute to smoothing the transition toward a sustainable economy notably by facilitating - if not encouraging - the financing of mitigation and transition investments which actually encompass many technological gambles.

In this context the session aims at taking stock of the current understanding of the nature and magnitude of sustainability risks. It is also intended to describe accurately the challenges related to building effective sustainability risk assessment and mitigation tools. Finally, the session will try to assess the possible incentives that financial regulation could or should provide in order to adequately contribute to an unprecedented economic transition.

SPEAKERS

Chair

Mario Nava
Director, Horizontal Policies, DG FISMA,
European Commission

Public Authorities

Gabriel Bernardino
Chairman, EIOPA

Sarah Breeden
Executive Director, International Banks Supervision,
Bank of England

Industry Representatives

Carlos Ignacio de Montalvo Rebuelta
Partner, EMEA Insurance Risk
and Regulatory Leader, PwC

Eugenie Molyneux
Chief Risk Officer of Commercial Insurance,
Zurich Insurance Group

Michael West
Managing Director, Global Ratings & Research,
Moody's Investors Service

POINTS OF DISCUSSION

What are the main findings of regulators (NGFS, FSB, BCBS...) and financial institutions globally, regarding the nature and magnitude of sustainability risks?

What are the main challenges to be faced in order to achieve an effective and accurate sustainability risk assessment and mitigation?

What are the current supervisory expectations and priorities to enhance financial risk management of supervised firms? What should be the regulatory timetable in the EU and globally for addressing those new regulatory challenges at both micro and macro supervision levels?

16:45 to 17:45 **CONSTANTA ROOM**

Non-bank finance: what role for micro and macro-prudential policies?

This session will assess whether the main vulnerabilities associated with non-bank non-insurance activities can be appropriately tackled with the existing EU frameworks and additional global guidelines. This panel will also discuss the respective roles and contributions of micro and macro-prudential policies in addressing these risks and whether the macro-prudential dimension of the existing framework needs enhancing in order to better tackle potential systemic risks.

In terms of product and activity scope, this discussion will mainly cover asset management activities, except ETFs, which will be addressed in a specific session. Emerging risks or potential risks related to other market-based finance activities may also be considered.

SPEAKERS

Chair

Francesco Mazzaferro
Head of the ESRB Secretariat, ESRB

Public Authorities

Natasha Cazenave
Managing Director, Head of Policy and International Affairs, AMF

Gaston Gelos
Assistant Director & Chief, Monetary and Macroprudential Policies Division, IMF

Industry Representatives

Joanna Cound
Head of Global Public Policy, EMEA, BlackRock

Stéphane Janin
Head of Global Regulatory Development, AXA Investment Managers

Alexandra Richers
Managing Director, DekaBank Deutsche Girozentrale

POINTS OF DISCUSSION

Which vulnerabilities associated with non-bank non-insurance financial activities may remain to be addressed at product or system-wide level? Are new risks emerging in this area? Can the potential systemic risks associated with these activities be appropriately mitigated with existing EU frameworks and global guidelines?

What should be the respective roles of micro and macro-prudential policies in tackling potential risks associated with non-bank non-insurance finance? What could be the main focus of a future macro-prudential framework for the non-bank non-insurance financial sector? Does the macro-prudential dimension of existing EU and international frameworks need enhancing?

DAY 1 I 3 APRIL AFTERNOON

17:45 to 18:45 | GRAND BALLROOM

Implementation of EMIR 2.2 cross-border CCP supervision requirements

The objective of this session is to discuss the possible issues that remain to be clarified regarding EMIR 2.2 proposals for improving the supervision of cross-border CCPs based in the EU and in third-countries and the potential impacts of these measures on the derivative market. This panel will also assess whether the temporary access measures and MOUs adopted by the EU and UK in order to mitigate the effects of a possible no-deal Brexit will allow an appropriate functioning of the derivative market in the short term (whatever the final outcome of EU-UK negotiations) and whether equivalence arrangements are an adequate solution for the longer term.

SPEAKERS

Chair

Nathalie Aufauvre
Director General Financial Stability and Operations, Banque de France

Public Authorities

David Bailey
Executive Director, Financial Market Infrastructure, Financial Stability, Bank of England

Claudio Impenna
Deputy Head of Markets and Payments System Oversight Directorate, Banca d'Italia

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

Verena Ross
Executive Director, ESMA

Industry Representatives

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

Finbarr Hutcheson
President, ICE Clear Europe, ICE Intercontinental Exchange, Inc.

Daniel Maguire
Chief Executive Officer, LCH Group

POINTS OF DISCUSSION

Are there any issues remaining to be clarified regarding EMIR 2.2 proposals for the supervision of cross-border EU CCPs (e.g. in terms of allocation of responsibilities and decision-making powers)?

Are there any pending issues remaining to be addressed regarding the supervision of third-country CCPs in EMIR 2.2? What impact is expected from these measures? Will they allow the achievement of an appropriate level of cooperation with third-country jurisdictions?

Will the temporary access measures and MOUs adopted bilaterally by the EU and UK for the derivative market lead to the solving of the main issues related to Brexit in the short term? Is equivalence an adequate solution going forward?

17:45 to 18:45 | CONSTANTA ROOM

Are specific regulatory rules needed for ETFs?

The objective of this session is to discuss the distinctive features of ETFs and whether these funds raise any specific risks compared to other funds e.g. UCITS. The panel will also assess whether a more specific regulatory framework or set of rules would help to support the development of ETFs in the EU and to mitigate any particular risks associated with these funds.

SPEAKERS

Chair

Gerben Everts
Member of the Executive Board, Dutch AFM

Public Authorities

Gerry Cross
Director of Financial Regulation - Policy and Risk, Central Bank of Ireland

Jean-Paul Servais
Chairman, FSMA, Belgium

Industry Representatives

Noel Archard
Global Head of SPDR ETF Product, State Street Global Advisors

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

Expert

Niels Lemmers
Managing Director, European Investors' Association

POINTS OF DISCUSSION

What are the main distinctive features of ETFs? Do ETFs pose any specific risks or raise any specific issues compared to other fund categories and if so, have they materialized so far? Should a further development of the ETF market be encouraged in the EU and if so on what conditions?

Can existing EU fund and securities frameworks appropriately support the development of ETFs and mitigate any potential risks they may pose? Would more specific ETF rules be helpful and if so what should they cover?

DAY 1 | 3 APRIL AFTERNOON

18:45 to 18:55 GRAND BALLROOM

Remarks: **Attracting finance to Europe in the changing global market**

SPEAKER

Katharine Braddick
Director General, Financial Services, HM Treasury

18:55 to 19:10 GRAND BALLROOM

Exchange of views: **The implications of Brexit for EU financial services firms**

SPEAKERS

Bruce R. Thompson
Vice Chairman, Bank of America

David Wright
President, EUROFI

19:15 to 20:15 | GRAND BALLROOM

The optimal approach to third-country EU market access post-Brexit

This roundtable will discuss existing EU third-country market access regimes, the issues they raise in the specific case of the UK and to what extent they could need improving to facilitate EU access from the UK post-Brexit. The panel will also assess how these regimes may be improved without threatening the sanctity of the single market or financial stability and whether alternative approaches exist.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

Katharine Braddick
Director General, Financial Services, HM Treasury

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

Steven Maijoor
Chair, ESMA

Felicia Stanescu
Head of Policy Definition and Coordination, DG FISMA, European Commission

Industry Representatives

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

Dermot McDonogh
Chief Operating Officer for EMEA, Goldman Sachs International

Simon Miller
Managing Director, Head of Legal and Compliance, Mizuho Bank Ltd

Bruce R. Thompson
Vice Chairman, Bank of America

Expert

Christian Noyer
Honorary Governor, Banque de France

POINTS OF DISCUSSION

What are the positive features and limitations of existing EU equivalence regimes in the financial sector in terms of access, risk mitigation and the assessment process? Do existing EU equivalence regimes have specific shortcomings or limitations concerning the UK financial sector?

How important is the improvement of third-country access rules for the EU and UK financial sectors and the EU economy post-Brexit? Can existing EU equivalence regimes be improved without putting financial stability at risk and will transitional arrangements leave enough time for improvements to be made? Will erga omnes trade requirements restrict EU options for making equivalence mechanisms work better? Are there alternative approaches worth considering to support access to the EU market from the UK post-Brexit?

08:00 to 09:45 | GRAND BALLROOM

CMU post-Brexit: status quo, refocus or redesign?

This session will discuss the main objectives of the Capital Markets Union (CMU) going forward and the challenges that remain to be addressed, given the progress that has been made so far. It will also assess whether the current CMU action plan should be maintained or whether it needs amending or changing more radically (e.g. refocusing the initiative on some key objectives or redesigning it with a different perspective). The importance of further supervisory cooperation and convergence at the EU level for supporting the CMU and how this may be achieved will also be discussed.

SPEAKERS

Chair

Steven Maijoor
Chair, ESMA

Public Authorities

Sebastián Albella Amigo
Chairman, CNMV

Florin Georgescu
First Deputy Governor, National Bank of Romania

Olivier Guersent
Director General, DG FISMA, European Commission

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

Rimantas Šadžius
Member, European Court of Auditors

Joachim Wuermeling
Member of the Executive Board, Deutsche Bundesbank

Industry Representatives

Thomas Book
Member of the Executive Board, Deutsche Börse AG

Martine Doyon
Managing Director, Head of Government Affairs EMEA, Goldman Sachs International

Stefan Gavell
Global Head of Regulatory, Industry & Government Affairs, State Street Corporation

Xavier Larnaudie-Eiffel
Deputy Chief Executive Officer, CNP Assurances

POINTS OF DISCUSSION

What are the main achievements of the CMU initiative so far? What are the main challenges the CMU is facing at present and going forward?

How should the incoming Commission approach the future steps of the CMU initiative? Do the objectives of the CMU and the related action plan need reviewing and if so, in what way and to what extent? How may Brexit affect the CMU initiative, given the latest developments?

How important is stronger supervisory cooperation and convergence at the EU level for the CMU project? What are the main areas where improvement may be needed? Are significant changes necessary in the functioning of the ESAs, and ESMA, in particular to support the implementation of the CMU?

09:45 to 10:10 GRAND BALLROOM

Investment firm prudential regime

Unlike credit institutions, investment firms do not accept deposits and do not grant loans on a large scale (independently of transactions in financial instruments). Beside credit institutions, investment firms (IFs) play an important role notably in the context of the Capital Markets Union. According to the European Banking Authority (EBA), there are approximately 6,000 IFs in the European Economic Area (EEA), 55% of which are in the United Kingdom. Of these 6,000 IFs, 2,780 benefit from the European passport (75% of which are British IFs).

Until now, these IFs were subject to prudential rules similar to those imposed in the EU on credit institutions. The Commission has proposed to modulate the prudential requirements for IFs, and their corresponding supervisory arrangements, according to their size. The largest IFs would remain subject to the prudential regime defined by CRR and CRD and supervised as large credit institutions by the European Central Bank. Smaller IFs (categories 2 and 3) would benefit from a lighter prudential regime and their supervision would be the responsibility of national supervisors.

Brexit changes the stakes of these developments, which may lead to the creation of a regulatory context making it possible to circumvent the third-country regime set up by the MiFID 2 Directive. Indeed, in this case certain (small?) IFs whose parent company is located in third countries, would have access to the European market with lighter requirements than credit institutions and IFs whose parent company is located in the Member States.

The objective of this session is to find out whether the on-going negotiations at the European level will ensure fair competition conditions between EU banks and FIs, and FIs from third countries, and more generally provide EU capital markets with an appropriate level of control.

SPEAKERS

Chair

Adam Farkas
Executive Director, EBA

Discussants

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

Mario Nava
Director, Horizontal Policies, DG FISMA, European Commission

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

POINTS OF DISCUSSION

What are the main features of the proposed Investment firm prudential regime? What is at stake regarding systemic risk and competition in the single market?

Are there any issues raised by the EU parliament or the Council on this topic? What are the main potential fair competition issues raised by the proposed framework between investment firms and banks, notably in the context of the Brexit and new equivalence arrangements regarding supervision?

How is the proposed legislation evolving in this area and what are the necessary improvements?

09:15 to 10:15 | CONSTANTA ROOM

Addressing the financing and investment gap in the CEE region

The objective of this session is to discuss the challenges that the CEE (Central and Eastern Europe) region is facing in terms of financing and investment, how financing needs are evolving in the region, the initiatives conducted at the EU, regional and domestic levels to address these issues and whether additional actions are needed.

SPEAKERS

Chair

Peter Paluš
Head of the Financial Unit, Permanent Representation of the Slovak Republic to EU

Public Authorities

Benjamin Angel
Director, DG ECFIN, European Commission

Debora Revoltella
Director Economics Department, EIB

Industry Representatives

Lucian Anghel
Chairman, Bucharest Stock Exchange

Sergiu Manea
Chief Executive Officer & President of the Council of Banking Employers in Romania,
Banca Comerciala Romana - Erste Group

Sergiu Oprescu
Chairman of the Board,
Romanian Association of Banks

Steven van Groningen
President and Chief Executive Officer,
Raiffeisen Bank Romania

POINTS OF DISCUSSION

What are the key challenges that the CEE region is facing in terms of growth? How does the financing model of the region need to evolve in order to accompany these changes? What are the obstacles to overcome in order to move towards this new financing model?

What are the priorities for progressively changing the financing model of the CEE region? Are the actions undertaken at the EU, regional and domestic levels going in the right direction and are they sufficient? Is there a risk that capital market financing and investment may not develop at a sufficient speed in the region with the actions underway? What more could be done?

On-going changes in the growth model of the CEE region

The CEE economies have recovered from the 2008 financial crisis and are enjoying relative economic stability. However potential growth forecasts in the region are deteriorating and the timeline for the completion of the economic convergence process is spreading out. In addition there is a persistent investment gap in the region in terms of quantity (approximately 4% of GDP) and composition. This gap is more pronounced for NFCs (Non-Financial Companies) because EU funds tend to target mainly the public sector and infrastructure investments at present.

This means that the growth and financing model of the region will need to evolve in the coming years. The pre-crisis model involved a great deal of foreign investment going into labour-intensive industries and infrastructures, as well as portfolio capital coming into foreign-owned banks, both of which are expected to diminish in the future. Financing infrastructure and manufacturing plants will remain necessary, but there will be a need to place a greater emphasis on domestically driven productivity growth (requiring further investment of NFCs, particularly in the service sector, into new equipment and ICT i.e. information and communications technology) and the financing of more innovative, technology-intensive and high-growth industries. This will require developing workforce skills and a higher capacity to invest in intangible assets.

A rebalancing in the CEE region in favour of more capital market financing is necessary, but challenging

The financing model needs to be progressively diversified in the CEE region as a consequence of the economic evolutions mentioned above, with a greater role for capital markets, supported by a stronger local investor base with a long term perspective (pension funds, life insurance…). Capital market instruments and particularly equity are indeed more suitable than bank credit for financing innovative projects and intangible assets, because they have a longer term perspective and do not require the same guarantees, collateral, credit history or regularity of cash flows. In addition, compliance with applicable prudential requirements might restrict the availability of bank financing over time.

Several supply and demand-related issues need to be addressed. Banks finance at present 90% of the economy in CEE, which is higher than the EU average of 75%, and they focus mainly on traditional business such as loans and savings products. That said, a growing number of CEE banks have issued more innovative products such as covered bonds, which has helped local capital market development and expanded the product range available to local investors. This notwithstanding, local capital markets lack the scale and capabilities that are needed to attract foreign investors and support larger issuers.

Companies in the region are mostly small and prefer debt financing. Their managers have limited experience of capital markets and perceive them as complex and costly to use. They are also reluctant to make the changes required in terms of governance and transparency. Retail investors based in the CEE region also generally do not participate in financial markets and mostly use cash holdings and bank deposits for their savings, all of which does not generate enough return for wealth to develop significantly. In addition the expansion of local institutional investors such as capital-funded Pillar 2 retirement systems may be hindered by decisions made by several CEE countries to revert to the traditional 'pay-as-you-go' system.

In this context, banks will continue to be by far the main source of financing in CEE in the short term, requiring credit conditions and the potential underlying factors (bank deleveraging, NPL issues, compliance with prudential requirements and local tax measures, etc.) to be closely monitored in these countries, and possibly additional measures to facilitate bank lending for innovative companies and infrastructure investment.

The actions that are underway at the EU and regional levels to develop capital markets and local financing resources need pursuing and expanding

The actions initiated at the EU level to foster the development of capital markets should be beneficial for the CEE region. Firstly, the efforts made to implement the EU capital market rulebook throughout the EU should provide the CEE countries with a consistent set of rules. This should facilitate the development of appropriate investment offerings across the multiple and relatively small CEE markets and also facilitate investment into the CEE region from other parts of the EU and third-countries. Actions proposed in the context of the Capital Markets Union (CMU) should further support the development of capital markets in the region, however the progress made so far with this initiative is still limited. Secondly actions are being conducted under the aegis of the EU Commission in the context of the Structural Reform Support Programme (SRSP) to support the development and integration of local capital markets. Projects in CEE countries range from capital markets diagnostics and strategies, through SME equity listing support instruments and pre-listing support programs, to reforming the legal and regulatory framework for covered bonds and securitization, and improving the investment environment for institutional investors.

Multiple initiatives are also underway at the regional level, with the support of IFIs (international financial institutions such as the EIB and the EBRD), to develop and interconnect local capital markets. Work is under way to establish a Pan-Baltic framework for covered bonds, and an additional project aiming to obtain a single Frontier market classification jointly for the three Baltic countries to enhance the attractiveness of these combined equity markets to institutional investors. The SEE link project, also supported by the EBRD, aims to create a regional capital markets infrastructure by connecting the stock exchanges of 7 countries including Bulgaria, Croatia, Slovenia and N. Macedonia. A follow-up project is being implemented to connect securities clearing, settlement and depositary infrastructures at the regional level for the SEE Link markets. Local initiatives have been moreover put in place in Romania or Bulgaria for example. Actions are also being conducted by the EIB through the EIF Investment Facility to support the development of venture capital and private equity in CEE, investing in funds that operate in the region and also providing investment expertise.

The IFIs moreover provide local banks with support, aiming to increase their lending capacity in the region. The EIB is supporting new securitisations and providing local banks with new risk-sharing mechanisms (through the SME initiative) that enable them to lend to innovative SMEs in an uncollateralized way. This includes providing banks with a first-loss guarantee on portfolios of loans to growing SMEs and innovative firms, which should help them to take more risks notably regarding intangible investments. The EBRD has helped implement covered bond reforms in several CEE jurisdictions, including Romania, Poland and Slovakia, with work ongoing in the Baltics and Croatia, bringing national regulatory frameworks in line with EU and international standards and providing these markets with renewed momentum in CEE.

10:15 to 11:00 GRAND BALLROOM

What future for securitization in the EU?

Reviving the securitisation market in the EU on a sound basis with a view to strengthen banks' ability to finance the economy, provide additional funding sources for companies, and enhance private risk sharing is among the objectives of the Capital Markets Union. To this end, a new securitisation framework was published at the end of 2017 and entered into application on 1 January 2019. Implementing technical standards are being developed.

This session is intended to take stock of the regulatory evolutions introduced in the EU (STS criteria, reviewed capital charges for both investors and originators, etc.), the challenges faced to implement them and the realistic perspectives of the EU securitization market in the context of the Capital Market Union.

SPEAKERS

Chair

Edouard Fernandez-Bollo
Secretary General, ACPR

Public Authorities

Felicia Stanescu
Head of Policy Definition and Coordination, DG FISMA, European Commission

Paul Tang
MEP, ECON Committee, European Parliament

Industry Representatives

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

Philippe Bordenave
Chief Operating Officer, BNP Paribas

POINTS OF DISCUSSION

Are the EU Simple Transparent and Standardised Securitisation framework and Significant Risk Transfer rules able to relaunch EU securitization markets?

What are the respective merits of securitisation and covered bonds to address bank balance sheet management needs (liquidity needs, reduction of regulatory capital needs and Single Resolution Fund, GSIB – Buffer, Leverage ratio, etc.)? What should be improved in each of these frameworks to better address EU bank needs?

What should be the specificities of the EU and US markets and related strengths and weaknesses?

10:15 to 11:15 | CONSTANTA ROOM

Is the EU securities market structure adequate?

This session will assess how the structure of EU securities markets and the characteristics and role of securities market infrastructures have evolved, notably with the implementation of EU securities regulations (MiFID II, EMIR, CSDR) and TARGET2-Securities (T2S), and whether the EU securities market has now the appropriate structure to support a further development of capital markets in line with CMU objectives and ensure the resilience of EU securities markets.

SPEAKERS

Chair

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

Public Authorities

Olivier Guersent
Director General, DG FISMA, European Commission

Jochen Metzger
Director General, Payments and Settlement Systems, Deutsche Bundesbank

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

Industry Representatives

Andrew Douglas
Managing Director, Government Relations (EMEA & APAC), DTCC and Chief Executive Officer, DTCC's European Trade Repositor

Alexandra Hachmeister
Chief Regulatory Officer, Deutsche Börse Group

Vincent Remay
Advisor to the Chairman, Tradition

POINTS OF DISCUSSION

How has the EU securities market structure evolved in the trading and post-trading spaces with the implementation of EU securities market regulations (MiFID II, EMIR, CSDR) and TARGET2-Securities? What are the benefits so far for issuers and investors at the domestic and cross-border levels and the potential issues that still need addressing?

What further improvements are needed in the EU securities market structure to foster the development and further integration of EU capital markets? Can these changes be achieved with the actions underway and notably with MiFID II and the proposals made in the context of the CMU? Could Brexit have major impacts on EU securities trading and post-trading market structures, given the transitional measures that have been granted? What additional measures might be needed and what role may new technologies (e.g. cloud, DLT…) play?

11:00 to 12:15 GRAND BALLROOM

CMU and Banking Union: are they complementary or antagonistic?

This session will discuss the complementarities between the Banking Union (BU) and the Capital Market Union (CMU) projects and whether there are any contradictions between the objectives of the two initiatives. Secondly, this panel will assess how to better capitalize on the synergies and complementarities between the two initiatives in order to achieve a balanced model of financing for the EU economy and an improved allocation of risks and capital across the Union.

SPEAKERS

Chair

Mahmood Pradhan
Deputy Director, European Department, IMF

Public Authorities

Carmine Di Noia
Commissioner, CONSOB

Philipp Hartmann
Deputy Director General, Research, ECB

Felix Hufeld
President, BaFin

Industry Representatives

Jacques Beyssade
Secretary General, Groupe BPCE

Stephane Boujnah
Chief Executive Officer and Chairman of the Managing Board, Euronext

Jean Naslin
Executive Director, Head of Public Affairs, CaixaBank

Michael Percival
EMEA Head of Regulatory Affairs, J.P. Morgan

Tanate Phutrakul
Chief Financial Officer, ING Groep N.V.

POINTS OF DISCUSSION

In what way are the Banking Union and Capital Markets Union initiatives complementary? How may they jointly contribute to the strengthening and integration of EU financial markets?

How to better capitalize on the complementarities between banks and capital markets in order to develop a more balanced financing model for Europe? Would there be value in combining more explicitely the CMU and BU initiatives in a more holistic approach?

Two major policy initiatives aimed at strengthening and further integrating the EU financial sector

Despite the commonality of certain of the objectives of the Banking Union (BU) and of the Capital Markets Union (CMU) related to the further integration of financial markets and the improvement of risk sharing across the EU, these projects were structured separately and are conducted in parallel. This can be explained notably by the different circumstances that led to their inception (the Eurozone sovereign debt crisis for the BU and insufficient economic growth and investment in the EU for the CMU).

The complementarities between bank and capital markets could however be better capitalized on, to the mutual benefit of both initiatives. In addition, since banks and capital markets compete for the financing of certain opportunities, there is a risk that financing may not be fully optimized if all possible instruments are not considered. There have been calls for a "financing union" combining the two initiatives (and possibly other EU programmes such as InvestEU). This holistic approach to the financing of the EU economy seems an appropriate way forward, but its practical implications still remain spelling out in greater detail.

Better capitalizing on the complementarities between banks and capital markets could enhance financing and investment

Banks and capital markets are complementary. Banks are important players in capital markets (e.g. as intermediaries in the issuance and sales of securities, market-makers, investment advisors…) and may support their further development at the domestic and cross-border levels. Conversely, capital market instruments (notably equity) can finance innovation and immaterial assets more adequately than banks because they do not require the same guarantees, collateral, credit history and regularity of cash flows as bank credit and can help to provide long term resources that banks can no longer offer, due to higher prudential requirements. Other instruments such as securitisation can also strengthen the capacity of banks to support the economy, hence the framework established in the context of the CMU regarding simple, transparent and standardised (STS) securitisation.

Further capitalizing on these complementarities in the BU and CMU projects would help to ensure that uncovered financing or investment needs are fulfilled with the most appropriate instruments - bank or capital market based – depending on the characteristics of the project to fund and the maturity of the financial sector in the jurisdiction concerned. This is particularly relevant for SMEs. For most of them, bank financing is the main external source of financing in the EU, because capital market financing is relatively costly and complex for small enterprises and requires governance changes and transparency enhancement that they are not ready to make. However, for some of them - the most innovative and fast-growing ones and those investing in immaterial projects - capital market funding and notably equity financing (provided by VCs, private equity or IPOs) - is essential. This also requires the development of active local capital market ecosystems in which banks play a key role alongside other market participants and securities infrastructures.

Retail investment is a second area where the combination of bank and capital market activities is particularly relevant. Encouraging retail investors to engage more in the capital markets indeed requires an appropriate combination of investment products and order execution services provided by capital market players and the provision of investor information and advice and intermediation services mostly offered by banks at present in the EU.

A more explicit connection between the BU and the CMU would also facilitate the identification of the most appropriate drivers for improving risk and capital allocation across the EU

Cross-border capital flows are necessary to ensure an appropriate allocation of capital and risks across the EU. However investors' and banks' portfolios have increasingly become national following the Eurozone sovereign debt crisis.

At present cross-border banking activities (loans, deposits…) in the euro area are limited to a 7 to 8% share and have decreased since the crisis. This fragmentation hinders the effective allocation of financial resources and risks across the Eurozone via the banking channel. Initial assessments show that it is unlikely that the BU will foster much progress in this respect, despite the implementation of a common supervision of the main banks of the Eurozone. Two main proposals have been put forward by the Commission for completing the BU (a common backstop for the SRF and the implementation of EDIS), but neither of these seems likely to alleviate completely the concerns of host countries at the root of the current regulatory fragmentation across the Eurozone (e.g. local add ons, ring-fencing policies…). This would instead require tackling certain remaining risks (e.g. finishing the resolution of NPLs, diminishing the sovereign-bank loop), progressing towards a European approach to the liquidation of transnational banking groups, which does not exist at present, and making the commitment by parent bank companies to support their subsidiaries more explicit in some cases.

If progress in terms of integration and consolidation is not achievable in a reasonable timeframe in the banking sector, more integrated capital markets will be necessary for improving the allocation of risks and capital across the EU and increasing the capacity of the Union to absorb asymmetric shocks. However, the current level of integration of EU capital markets is also limited demonstrated e.g. by a relatively strong home bias in the detention of securities. Much progress has been made thanks to the implementation of EU capital market regulations and TARGET2-Securities, but efforts are still needed in several areas notably to improve the consistency of the single rule book (e.g. investment fund distribution, securities post-trading…) and enhance supervisory convergence.

A further challenge is that efforts to further integrate EU capital markets should not be to the detriment of other important objectives of the CMU such as diversifying sources of financing via the development of local market ecosystems and of equity financing, in a workplan that has already been considerably widened (e.g. with the sustainable finance and fintech agendas).

A combined BU and CMU approach would facilitate the prioritization, based on their potential impact and feasibility, of the main actions in the banking and capital markets areas that may help to improve the allocation of risk and capital across the EU. However, this needs to be done in a European perspective since many of the obstacles that require tackling result from domestic decisions of Member States. This is nonetheless difficult to achieve without effective progress in the application of the Stability and Growth Pact rules in all parts of the Union.

11:15 to 12:15 | CONSTANTA ROOM

Integration and competitiveness of EU fund markets

The objective of this session is to discuss the main challenges that the EU investment fund sector (UCITS and AIFs) is facing in terms of integration and competitiveness, the improvements that are needed as a priority for end-investors and the financing of the EU economy and whether sufficient progress can be made with the existing fund frameworks and on-going legislative proposals made in the context of the CMU.

SPEAKERS

Chair

Wolf Klinz
MEP, ECON Committee, European Parliament

Public Authorities

Nicoletta Giusto
Director of the International Relations Office, CONSOB

Jean-Paul Servais
Chairman, FSMA, Belgium

Felicia Stanescu
Head of Policy Definition and Coordination, DG FISMA, European Commission

Industry Representatives

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

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

Jarkko Syyrilä
Head of Public Affairs, Nordea Asset and Wealth Management

POINTS OF DISCUSSION

What are the main challenges that the EU asset management sector is facing in terms of integration and competitiveness? Is Brexit likely to impact significantly the competitiveness of the EU fund sector? What may be a reasonable improvement target for the EU fund sector in the short and medium term and what benefits can be expected for investors and the EU economy? Is the comparison with the US fund market relevant?

To what extent can the integration and competitiveness of the EU asset management sector be improved with the existing EU frameworks and the CMU-related legislative proposals underway? What additional regulatory or industry-driven measures might be needed? Can new technologies provide further improvements and what are the possible challenges?

12:15 to 12:35 | GRAND BALLROOM

Speech: **Developing EU - US regulatory and supervisory cooperation in capital markets**

SPEAKER

Christopher Giancarlo
Chairman, U.S. CFTC

13:30 to 14:30 **GRAND BALLROOM**

Is the EU long-term sustainability strategy «bankable»?

Notably in the context of the 2015 Paris Agreement, the EU is setting ambitious environmental sustainability policy objectives. In addition to related EU sustainability packages, the EU Commission also proposed in May 2018 a regulation on a framework to facilitate sustainable investment. In recent years, the EU has also innovated in order to further optimise the use of public funds by combining them with large private sector financial resources (Juncker Plan, InvestEU).

Since achieving these ambitious transition programmes requires both constant technological innovation and an unprecedented level of financial investment, this session is dedicated to outlining whether current EU sustainability strategies and investment practices provide sufficient legibility, certainty and agility so as to trigger the relevant number of projects and accelerate the involvement of the private financial sector.

SPEAKERS

Chair

Daniel Calleja Crespo
Director General for Environment, European Commission

Public Authorities

Jean-David Malo
Director, Open Innovation and Open Science, DG RTD, European Commission

Andrew McDowell
Vice-President, EIB

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

Gerassimos Thomas
Deputy Director General, DG ENERGY, European Commission

Industry Representatives

Natalie Westerbarkey
Head of EU Public Policy, Fidelity International

Laurent Zylberberg
Senior Executive Vice President, Public Affairs and International Relations, Caisse des Dépôts & President, ELTI

Expert

Edmond Alphandéry
Chairman, Euro 50 Group

POINTS OF DISCUSSION

Are the main features of EU sustainability policies in the areas of circular economy, energy transition, climate… adequate to trigger relevant levels of investment in the EU in the appropriate domains? What are the positives and negatives of the observed fragmentation of sustainability policies?

Is there a lack of investment in the EU sustainability strategy? What are the main impediments to achieve a sufficient level of sustainable investments in the EU?

What should be the priorities for the next EU parliament and Commission to allow sustainable investment to change gears in the EU?

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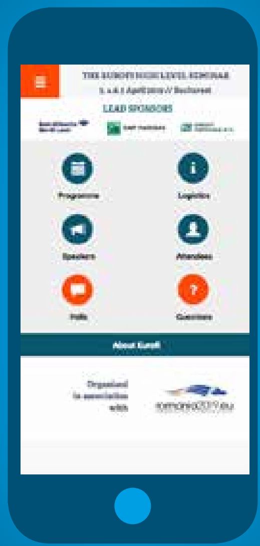

ADDRESS QUESTIONS TO THE PANELS DURING THE SESSIONS

PARTICIPATE IN POLLS

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CONSULT PROGRAMME AND LOGISTICS INFORMATION

14:30 to 15:45 GRAND BALLROOM

Sustainable finance: expected impacts of the current EU legislative proposals

Beside the objective to better manage financial risks stemming from climate change, environmental degradation and social issues, the European Action Plan on Financing Sustainable Growth adopted in March 2018, seeks notably to facilitate the channelling of financial resources towards sustainable investment, and to foster transparency and long-termism in financial and economic activity. In this context various proposals are being tailored notably regarding an EU taxonomy and low carbon and positive carbon impact indices.

This session seeks to describe the actual achievements of the European Action Plan before the current EU legislature ends and to discuss the issues that these regulatory developments raise in order to identify possible ways forward and priorities for the forthcoming Commission.

SPEAKERS

Chair

Sylvie Goulard
Second Deputy Governor, Banque de France

Public Authorities

Mario Nava
Director, Horizontal Policies, DG FISMA, European Commission

Luiz Awazu Pereira da Silva
Deputy General Manager, BIS

Paul Tang
MEP, ECON Committee, European Parliament

Industry Representatives

Eric Campos
Director, Crédit Agricole S.A.

Lauri Rosendahl
President, Nasdaq Nordics

Manuel Rybach
Global Head of Public Affairs and Policy, Credit Suisse

Rhian-Mari Thomas
Global Head of Green Banking, Barclays Bank

POINTS OF DISCUSSION

What are by the end of the legislature, the expected achievements of the European Action Plan on Sustainable Finance and related added value? What are the main challenges these achievements raise?

What are the main issues raised by the proposed EU sustainability taxonomy? Is the envisaged taxonomy effectively providing greater clarity for the markets? Is it flexible enough to take into account the evolution of technology and to avoid possible bureaucratic burdens? Is the taxonomy providing sufficient incentives to head toward sustainability adaptation? Are there any consistency issues globally?

What are the main challenges to be addressed in order to define efficient low carbon and positive carbon impact indices? Are forthcoming low carbon and positive carbon impact indices able to reduce significantly existing green washing risk? Will market participants be able to innovate and develop the market for these benchmarks? Will the envisaged adoption path be smooth enough? Would low carbon impact and positive carbon impact benchmark designation be optional or mandatory and would it allow a swift adaptation to technological evolutions?

14:30 to 15:45 | CONSTANTA ROOM

Priorities for the next EU legislature in the payments area

Payments are a lively area. Even before payments widely leveraged AI, the accelerated growth of e-commerce and digital economy, notably through M-Payments notably boosted card payments. Although many Bigtech and payment service providers are non-EU companies, this context tiriggered an EU initiative to define an additional EU (instant) payment scheme (SCT Inst) and for the ECB to launch a TARGET instant payment settlement facility (TIPS).

The EU Commission is accompanying and even accelerating the trend by providing the market with legislations intended to encourage innovation and competition, and limit costs.

Without mentioning recent additional AML regulatory initiatives and the General Data Privacy Directive, the Payment Service Directive 2 (PSD2), is expected to open up payment markets to new entrants operating in the area of payment initiation or account information services. A regulation has also put a cap on interchange fees charged between banks for card-based transactions in order to reduce the costs for merchants in accepting consumer debit and credit cards.

This session is intended to discuss whether those accelerated technological and regulatory evolutions are effectively improving customer convenience and security, and favourably influencing product innovation and pricing. This should in turn facilitate the identification of possible EU policy priorities for the next Commission in order to improve where necessary the regulatory and competitive context, and further develop innovation in the EU.

SPEAKERS

Chair

Madis Müller
Deputy Governor, National Bank of Estonia

Public Authorities

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

Ashley Fox
MEP, Committee on Economic and Monetary Affairs, European Parliament

Päivi Heikkinen
Head of Payment Systems Department, Bank of Finland

Industry Representatives

Stephen Lindsay
Head of Standards, SWIFT

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

Florence Lustman
Chief Finance and Public Affairs Officer, La Banque Postale

Pia Sorvillo
Director of European Affairs, Visa

POINTS OF DISCUSSION

What are the main trends observed in retail payments in the EU notably in the context of accelerating digitalisation and the dominance of BigTechs? What role have been played in this respect by the various recent legislative initiatives (PSD2, GDPR, AML...)? What challenges does it raise for incumbents, retail customers and eventually for EU legislators?

What are the main legislative evolutions witnessed in the area of cards in the EU during this Commission and which are the related underlying trends? What are the observed benefits and drawbacks? Taking stock of what has been achieved what should be the next policy priorities?

How are Instant Payments developing in the EU? What is the expected role of this new scheme and related infrastructures in the EU payment landscape?

What are the issues raised by the fact that large non-EU institutions play an essential role in the provision of payment services in Europe, while European banks and payment schemes are focused on their national market in a context where certain policy makers call for Europe to develop its own messaging and payment systems and not be dependent on the USA?

15:45 to 16:45 **GRAND BALLROOM**

How to develop and connect securities ecosystems in the EU?

The objective of this session is to discuss the importance of local securities ecosystems (including issuers, investors, intermediaries, venues...) for the growth of capital markets in the EU, the main issues that need addressing in this regard and whether existing legislations and on-going Capital Markets Union (CMU) proposals provide an appropriate framework for their development. This panel will also assess the compatibility of the development of domestic market ecosystems with EU-level CMU objectives, whether the interconnection or consolidation of local market ecosystems is a relevant objective in the EU and what this may involve.

SPEAKERS

Chair

Jesper Berg
Director General, Danish FSA

Public Authorities

Carmine Di Noia
Commissioner, CONSOB
Lee Foulger
Head of International Department, FCA

Industry Representatives

James Cunningham
Senior Advisor, Public Policy and Regulatory Affairs, BNY Mellon
Hank Erbe III
Global Head of Strategic Relationship Management and Public Policy, Fidelity International
Lauri Rosendahl
President, Nasdaq Nordics
Antonio J. Zoido
Executive Chairman, BME

Expert

Guillaume Prache
Managing Director, Better Finance

POINTS OF DISCUSSION

How important is the existence of strong securities ecosystems for the proper functioning and development of capital markets in the EU? What are the main components and characteristics of effective ecosystems? What are their main areas of improvement in the EU?

How may the functioning and development of securities ecosystems be improved in the EU? Can sufficient progress be made within the existing EU securities market framework and with CMU-related initiatives or are additional policy or market-driven measures needed? What steps need to be taken at the EU-level and at the member state-level?

Is part of the problem in the anaemic development of EU capital markets relative to the US that we do not have sufficient long-term savings (e.g. pension funds, life insurance funds...)? How would you rank this problem compared to what is proposed under the umbrella of the CMU?

How can the development of separate member state eco-systems be compatible with the single market and the objectives of the CMU project? Is further interconnecting or consolidating securities ecosystems a relevant objective in the EU and can technology help in this perspective?

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DAY 2 | 4 APRIL AFTERNOON

15:45 to 16:45 | CONSTANTA ROOM

Review of the Solvency II long-term package

In a context where the Long-Term Guarantee elements of the Solvency II Directive must be reviewed by the Commission in 2020, the objectives of the session are to identify the observed strengths and weaknesses of the package as it exists currently, in order to identify related priority evolutions.

In addition, although the fundamental principles of the Solvency II Directive (including the confidence level underlying the calibration of capital requirements and the market-consistent valuation) are not subject to review, and provided that the 2020 review is expected by the Commission to allow a holistic and thorough assessment of the framework, additional evolutions and related stakes will also be discussed.

SPEAKERS

Chair

Fausto Parente
Executive Director, EIOPA

Public Authorities

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

Frank Grund
Chief Executive Director of Insurance and Pension Funds Supervision, BaFin

Industry Representatives

Tobias Bücheler
Head of Regulatory Strategy, Allianz SE

Clément Michaud
Chief Financial Officer, Crédit Agricole Assurances

Expert

Jean-Jacques Bonnaud
EUROFI

POINTS OF DISCUSSION

Three years after Solvency II came into effect on 1 January 2016, what have been the main achievements of its Long-Term Guarantee package? What are the key features of the regulatory framework which explain these observations?

What should be envisaged to address remaining challenges? What would be the appropriate timeframe?

The Long-Term Guarantees package

In May 2014, in addition to transitional measures intended to facilitate the implementation of the new insurance sector solvency framework, the European Union introduced the so-called Long-Term Guarantees package. Finally, regarding long-term Guarantees underwritten by insurance undertakings, the Solvency II framework encompasses in addition to a yield-curve extrapolation, the following elements:

- ***An Equity symmetric adjustment (SA) mechanism*** with respect to changes in the level of equity prices, included in the market risk module of the standard formula for the SCR. The calculation of the symmetric adjustment is based on the behaviour of an equity index built by the EIOPA exclusively for that purpose.
  The mechanism smoothens short term evolutions of equity markets so as that they do not impact the solvency position of undertakings in order to avoid in particular encouraging speculation behaviours (equities bought to benefit to short term market price raises) and fire sales triggered by solvency constraints suddenly raising due to short term general downward evolutions of equity prices.
- ***A volatility adjustment (VA)***, which consists of linking the discount rate for undertakings' liabilities to an adjusted risk-free curve, which incorporates a correction corresponding to the evolution of the spreads between risk free rates and those observed for a reference portfolio. The mechanism smoothens the volatility of the valuation of the liabilities resulting from short term spread volatility.
- ***A matching adjustment (MA),*** which links the discount rate for a liability to the credit-risk-adjusted yield earned on the assets backing those liabilities (restrictive conditions on the underlying business are imposed). This takes the form of a constant addition to the risk-free curve for portfolios for which both the obligation and the related asset portfolio can be identified, organised and managed separately from other activities of an undertaking. Naturally the probability of default of the assets (based on long- term statistics) and the loss resulting possibly from downgrading the assets are deducted from the matching adjustment.
  The matching adjustment is added to the whole yield curve after extrapolation. The impact of the matching adjustment on the financial statement is publicly disclosed.
- ***Extension of recovery period:*** certain lasting adverse situations require increased flexibility on the side of the supervisors to favour greater stability. In this context EU regulation allows supervisory authorities to extend the recovery period by a maximum of seven years from the normal 6-month recovery period, if an exceptional situation has been declared by the EIOPA after consultation with the European Systemic Risk Board (ESRB).

A combination of matching adjustment and volatility adjustment or transitional measures is not permitted.

These regulatory measures aim at facilitating the detention of long-tenure assets and avoiding focussing the asset-management strategy of insurers on shorter-term to the expense of the insurers' traditional role as a stabiliser of market volatility. This results mainly, from preventing pro-cyclical investment behaviour ("forced sales") by mitigating the effect of an extreme widening of bond spreads in stressed market conditions and more generally from market short-term volatility.

Solvency II standard formula: inspiring measures already proposed in the 2018 review

Anyway, in the draft regulation published on 9 November 2018 and open for consultation until December, in the context of the current review of the standard formula of the Solvency II prudential framework, the European Commission has already introduced new provisions notably to assign a reduced capital charge of 22% to certain ring-fenced equity investments subject to long-term investment requirements: the average holding period of the equity investments must exceed 12 years and must be higher than the average duration of the liabilities held in the ring-fenced portfolio. The intention to hold the equity investments for the long term must be documented and the insurer must be able to demonstrate that the investment can overcome stress scenarios.

Beyond the proposed adjustments intended to simplify the standard formula and observing the principle of proportionality, the aim here is to reduce the constraints that are hindering the financing of the economy notably in the form of listed and non-listed equities, for assets held for long term liabilities.

An assessment of a preliminary version of the proposed adjustment regarding the potential impacts resulting from the introduction of such a specific long-term category of equity holdings, estimated that:

- 50% of equities held by European companies could be eligible for such a classification;
- Consequently, the coverage ratio would be improved by up to ten points if the shock is reduced to 22%;
- European insurers applying the Standard Formula (or a partial internal model that does not cover equity risk) could reinforce their allocation in equities up to 20%;
- This would correspond to additional purchases of equities in the range of 50 and 100 EUR bn.

LTG is widely used by insurance undertakings

Most measures of the LTG are widely used and their impact on the LTG on the SCR and on Eligible own Funds are material.

The calculation of the EIOPA is that at EEA level the average impact of removing the SA on the SCR is -1% in 2018. The impact of removing the Volatility Adjustment would have be +3% and the Matching Adjustment +5% (increases of capital requirements).

Scope of the review

The Long-Term Guarantees elements of Solvency II Directive must be reviewed by the Commission in 2020. However, the fundamental principles of the Solvency II Directive (including the confidence level underlying the calibration of capital requirements and the market-consistent valuation) are not subject to review. Yet, the 2020 review is expected by the Commission to allow a holistic and thorough assessment of the framework.

Market participants expect that on the occasion of the review, some excessive regulatory constraints to insurance companies wanting to invest in certain asset classes will be attenuated, though maintaining the necessary prudence.

In addition to recent evolutions some advocate also amending the capital charges regarding the investment in unrated bonds and unlisted equities. Strategic participations by insurance companies are also raising much interest in Europe.

It is also considered as essential that insurance undertakings, as long-term investors, integrate environmental, social and corporate governance factors in their investments and product design and disclose such risks to the public. But it is also essential from a prudential point of view that sustainable and green investment be covered by the appropriate requirements reflecting their specific risks.

Regarding the LTG, one issue to address is the fact that these measures have had an impact on solvency positions that has varied greatly according to the country in which they have been applied.

Beyond the current scope of the review

Existing LTG measures mainly seek to reduce the volatility of capital requirements stemming from market volatility.

However, the package does not address the possible over estimation of asset risks resulting from this short-term volatility factored in the calibration of the related capital charges and which have not been taken into account although when the assets are held on the long term, they do not need to be sold rapidly on any conditions.

Neither does the package substitute a longer term for assessing the risk of the assets, which should be consistent with the maturity of liabilities. It only relies on possible market (short term) shocks on the market value of these assets, which badly account for the effective risk, which an undertaking is facing in such a case, which mainly stems from the uncertainty regarding the cashflows of the asset.

An area for reflection is also to consider the progress made and the main issues observed in the single market regarding the supervision of EU insurance undertakings e.g. consistency of national supervisory practices, supervision of LPS insurance activities, etc.

DAY 2 I 4 APRIL AFTERNOON

17:00 to 17:45 | GRAND BALLROOM

Exchange of views: **Bank fragmentation and prospects of further consolidation in the EU**

While we have come a long way since the establishment of the Single Supervisory Mechanism (SSM) four years ago, the Banking Union is far from complete. An efficient banking Union would break the sovereign- bank vicious circle, foster a more effective allocation of resources across the Eurozone (e.g. companies would be able to tap wider and cheaper sources of funding), help to achieve a better diversification of risks thus contributing to private risk sharing within the Union.

The limited strength of private risk-sharing channels in the euro area reflects both the underdevelopment of capital markets and a highly segmented banking system at the national level. There is little progress in cross-border lending, especially in the retail markets, or in other words, in lending to households and firms. Expanding this foreign activity would be important for the sound working of the euro area.

Despite the challenges faced in recent years, with the emergence of new competitors and low levels of profitability, many European countries' banking systems remain oversized and still have surplus capacity. In addition, international consolidation processes have been few and far between, and this pattern has not changed since the launch of Banking Union.

The objective of this exchange of views is to assess the reasons why banking systems are so fragmented in the Eurozone despite the implementation of the Single Supervisory Mechanism and the Single Resolution Mechanism and to discuss the possible way-forward. Speakers will then be invited to express their views on the expected benefits and priorities needed to foster cross-border consolidation in the euro area.

SPEAKERS

Chair

Felix Hufeld
President, BaFin

Public Authorities

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

Elke König
Chair, SRB

Fernando Restoy
Chairman, Financial Stability Institute, BIS

Industry Representatives

Jean Lemierre
Chairman, BNP Paribas

Fabrizio Saccomanni
Chairman, UniCredit S.p.A.

POINTS OF DISCUSSION

How to explain the increasing fragmentation of the banking sector and its oversized in the Banking Union?

What are priorities needed to foster cross-border consolidation in the euro area?

The Banking Union is failing to provide the expected degree of financial integration

The existence of the SSM and the SRM have not had any marked impact on the banking industry's structure in Europe. Indeed, the banking sector in Europe is too fragmented, not concentrated enough and oversized.

A fragmented banking landscape in the European Union

Indicators are continuing to signal banking fragmentation in Europe. The share of cross-border loans to households and cross-border deposits from households remain negligible at around 1%. Direct cross-border loans to firms accounts for only around 8% and this figure has hardly changed since the creation of the banking Union

The share of cross-border deposits in the euro area from firms is also very low (around 6%) and has fallen slightly over the last few years. The level of foreign bank penetration is, overall, relatively low for a banking union.

An Oversized banking system in Europe

The fragmented banking sector across domestic lines leads to overcapacities of the banking sector in many countries; the European Union is particularly concerned by overbanking.

Many indicators point to this excess capacity. For instance, efficiency indicators – such as cost – to -income ratios (around 69% in the euro area, and 60% in the United States) or branches per population (44 per 100,000 inhabitants in the euro area and 26 in the United States) illustrate this overcapacity.

Banks in Europe therefore have to face a much more competitive environment than in the United States and therefore a much stronger pressure on their margins. Moreover, lasting low interest rates have negative consequences on EU banks profitability.

Not concentrated enough

Bank Merger & Acquisition (M&A) transactions within the Euro Area have been on a steadily declining trend, both in terms of number and value, since the year 2000. Cross-border merger and acquisition activity among banks within Europe have practically disappeared. Indeed, bank Merger and Acquisition within the euro area has been on a steadily declining trend both in terms of number and value, since the year 2000.

The EU banking system is much less concentrated that the US one: the market share of the top five US banks within the United States was more than 40% in 2016, whereas the market share in the Eurozone of the top five European banks stands at more or less 20%.

In 2018, there were only \$5,0 bn of mergers between European banks, the lowest level for man than a decade and a tiny fraction of the €193,8 bn of such deals done on the eve of the financial crisis in 2007, according to date from Dealogic.

Overall, since 2007, the credit channel (i.e. cross-border lending and borrowing) has been acting in the euro area as a sock amplifier rather than a shock absorber

Whereas they used to be mostly cross-border in the pre-crisis period, they have increasingly become of a domestic type. Furthermore, as unveiled in research by Raposo and Wolff (2017), domestic M&A transactions have become increasingly of a 'controlling participation' type, whereas cross-border transactions have become increasingly of a 'minority participation' type. Certainly, all of this was, to some extent, driven by the post-crisis inward-looking bank restructuring strategies put in place by supervisors and Member States.

Overall, since 2007, the credit channel (i.e. cross-border lending and borrowing) has been acting in the euro area as a shock amplifier rather than a shock absorber.

Private risk sharing has indeed been impaired in the euro area, and a fortiori in the EU. This should be a concern, as it is through risk-sharing channels that the overall system becomes, at the same time, more resilient and more productive.

What are the consequences of this geographical nationalization of the European Banking system and regulatory framework?

As explained by Jacques de Larosière in a speech delivered in October 2018 at the European Financial Committee, the consequences of this fragmentation are severe and notably mean:

- Weak profitability of banks (in 2017, the return on equity was 3,9% on average in the European Union as opposed as 9,5% in the United States) at a time of particularly rapid technological innovation. Only banks with healthy profits can invest in technology, talent and scale;
- Reducing costs through economies of scale is more difficult and in addition, there is much less transfer of technology and knowledge;
- Competitive disadvantage for Pan-European banks versus US ones, which benefit from a large domestic base;
- The EU resistance to asymmetric shocks is weaker (in the United States the capital and credit markets absorb alone more than 50% of the consumer impacts; in Europe is only 10% because of the lack of capital mobility and of credit which stay within national borders. In total, including the fiscal element, more than 2/3 of the shocks are absorbed in the US whereas it is only 1/5 in Europe.

Conversely further banking integration would foster resilience against economic shocks. A geographically diversified loan book and deposit base make banks less vulnerable to domestic banks and thus reduce the volatility of their lending and income streams; private risk sharing via the banking channel would thus be made possible by a higher degree of risk diversification enabled by diminishing the domestic bias, be it in the shareholding of banks, in the attribution of credit or in the detention by banks of domestic sovereign debt.

It is evident that «ring fencing» is a significant contribution to explain these consequences. If we continue to condone ring-fencing and hinder cross-border banking consolidation, the risk is to see banking groups split into branches instead of subsidiaries.

Despite remarkable achievements in terms of balance sheets cleaning, regulatory harmonisation, and deepening institutional integration within the Banking Union, where the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) are up and running, financial integration is lagging behind. The Banking Union is failing to provide the degree of financial integration that we would have expected. Rather than smoothing idiosyncratic shocks to individual Member States, the banking sector still operates as a shock amplifier.

If the EU wants to keep up with the US and China economically as well as politically, it must break out this downward spiral and strengthen its banking industry. Only competitive and profitable banks can take on the risks necessary to finance sustainable growth. This is why a financial integration agenda for the Banking Union should rank high among the priorities of legislators and authorities for the next five years.

16:45 to 17:45 | CONSTANTA ROOM

Policy priorities at the EU level for fostering digital distribution and fintech innovation

The objective of the session is to take stock of on-going deep technology evolutions, the role played by Bigtechs in the financial area, and subsequent recent EU policy initiatives. The session should in particular assess their expected influence on innovation and integration in the EU market for financial services and identify the possible EU policy priorities required for an optimal evolution in this field.

SPEAKERS

Chair

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

Public Authorities

Hanna Heiskanen
Senior Advisor on Fintech and Policy, Finnish FSA

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

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

Industry Representatives

Eduardo Arbizu
Global Head of Supervisors, Regulation and Compliance, BBVA

Mariano Giralt
Global Head of Tax and Regulatory, BNY Mellon Asset Servicing

POINTS OF DISCUSSION

What are the main game changer technologies and their impact on the financial sphere (e.g. business models, players, products and customers)? How is the so-called creative destruction taking form in the financial area? How are existing players behaving (partnerships, competition...) and what are their observed priorities?

What are the main features of the EU Fintech action plan, and to what extent does it help or not to address both the challenges and specificities of the EU notably regarding EU integration?

Is digital disruption helping to speed up the integration of the EU markets for financial services despite existing differences in habits, languages and legal frameworks? How to describe the EU digital landscape in the financial area, compared to other geographies globally? Do digital initiatives taking place have a sufficient cross border dimension? Is Europe catching up?

What should be the appropriate ambitions of the next Commission and subsequent policy priorities for further leverage digitalisation in terms of innovation and EU integrations?

17:45 to 18:40 | CONSTANTA ROOM

Exchange of views: **Taking stock of G20 financial reforms 10 years after the London summit**

A global economy requires a global financial system. Regulatory barriers on global activities have the same negative impacts as trade barriers.

Following the 2008 crisis, global cooperation on financial regulation has become increasingly important over the last decade to achieve a resilient financial system. In 2009, the G20 launched a comprehensive programme of reforms to increase the resilience of the global financial system while preserving its open and integrated structure. Timely and consistent implementation of these reforms is essential to achieve sustainable growth.

Financial markets are experiencing weakening multilateralism and increasing levels of fragmentation. Several categories of fragmentation have been identified: Local Supervisory measures and Ring-Fencing, diverging standards, extraterritoriality and obstacles to cross-border cooperation and information sharing. It is therefore welcome that the Financial Stability Board (FSB) has launched a new initiative to explore ways to address the risk of market fragmentation.

The objectives of this exchange of views is to discuss the perspectives of global financial regulation in a context where some jurisdictions want to act independently or make sure that regulation considers their own specificities. Speakers will be invited in particular to identify the areas where banking and financial markets are affected by the G20 reforms and by fragmentation, their consequences and the priorities needed to mitigate them.

SPEAKERS

Introductory remarks

Klaas Knot
President, De Nederlandsche Bank
& Vice Chair, FSB

Exchange of views

Chair

David Wright
President, EUROFI

Discussants

William Coen
Secretary General, BCBS

Klaas Knot
President, De Nederlandsche Bank
& Vice Chair, FSB

Andrei Magasiner
Treasurer, Bank of America

Brian D. Quintenz
Commissioner, U.S. CFTC

Shunsuke Shirakawa
Vice Commissioner for International Affairs,
Japan FSA

POINTS OF DISCUSSION

Have the G20 reforms gone too far, weakening unnecessarily financial institutions? In which areas? Is there broadly a level global playing field?

Is global fragmentation emerging again? How to address the lacunae?

What are the new global policy challenges and G20/FSB, Basel policy priorities?

18:40 to 19:00 | CONSTANTA ROOM

Exchange of views: **Fundamental conditions for fiscal union**

Since 2012 increasing attention has been dedicated at the highest institutional level to reflect on a fiscal capacity for the euro area. There seems to be growing awareness among EU institutions and Member States on the need for such an instrument although divergences remain on the functions, forms and funding of this new dedicated euro area budget.

The main objective of this exchange of views is to discuss whether the time has come to work towards greater integration of the Eurozone economic policies and more specifically to consider putting in place a fiscal union.

The current weaknesses of the EMU and the benefits of deeper fiscal integration will be the first topic of discussion. The second topic will be the possible content and ambition of a fiscal union (i.e. a more significant common budget, an insurance scheme against strong cyclical fluctuations, a common unemployment insurance scheme, an equalisation of interest burden via a European debt agency), the feasibility of implementing such a Union in the current Eurozone context where public debt vulnerabilities remain very high (around or even above of 100% of GDP) in a set of large European economies.

The speakers will be invited to describe the key success factors of any reform of the fiscal architecture of the Eurozone and the short-term steps for progressing towards a deeper fiscal integration.

SPEAKERS

Chair

Harald Waiglein
Director General for Economic Policy and Financial Markets, Federal Ministry of Finance, Austria
and Member of the Board of Directors, ESM & EFC

Discussants

Alessandro Rivera
Director General of the Treasury, Ministry of Economy and Finance, Italy

Tuomas Saarenheimo
Permanent Under-Secretary, Responsible for International and Financial Affairs,
Ministry of Finance, Finland

POINTS OF DISCUSSION

What benefits can be expected from a fiscal union? Would greater fiscal integration boost EU economic growth and make a future crisis less severe?

Has the time come to work towards a greater integration of the Eurozone fiscal policies? What are the key success factors for any reform of the fiscal architecture of the Eurozone? What are the priorities right now?

19:00 to 19:15 CONSTANTA ROOM

Exchange of views: **EU financial integration: where do we stand?**

SPEAKERS

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

David Wright
President, EUROFI

19:15 to 20:30 | CONSTANTA ROOM

Priorities of the incoming Commission in the financial sector

To meet Europe's investment needs over the coming decade, something must change. Europe's investment gap is estimated at about € 700 bn per year of which € 180 bn per year is the climate gap. Europe needs more sources of private sector financing going into the economy, longer term investments notably to accommodate the ageing population, as well as a greater availability of risk capital to finance innovation and sustainable growth.

Maintaining the status quo is no longer an option. A radical change is needed. Cross- border financing has decreased since the financial crisis. Fragmentation in the single banking market has indeed increased despite the implementation of the Banking Union five years ago and the Capital Markets Union is far from having kept its promises. The euro area exhibits a savings surplus of more than €300 billion, or 3,5% of GDP in 2017, which is no longer being lent to the other euro-area countries but to the rest of the world. Despite the strengths of the EU (single market, abundant savings, level of education…), the prudential framework for long term investment is penalizing and projects sponsors are not prone to launch new investment projects.

And making progress on the EU financial integration agenda is becoming increasing difficult since the political and social context increasingly turn towards domestic agendas. In addition, considering the very high level of public and private indebtedness in certain significant countries of the EU, the room for manoeuvre in terms of monetary and fiscal policies is narrower today than 10 years ago.

However, If the EU wants to be sovereign and prosperous, it has become urgent to restore capital mobility within the European Union, favour long term investment and support innovative and growing projects with a strong immaterial content in all parts of the Europe Union. At the same time improving the efficiency of the EU financial players is essential to provide financing conditions in terms of quality and costs at a time when technological innovation requires significant investment.

The objective of this session is to discuss the priorities in the financial sector for the upcoming Commission. Speakers will be invited to express their views on the priorities to effectively enhance private risk sharing and improve capital allocation throughout the Union, encourage the financial industry to better finance growth and leverage digitalisation and artificial intelligence and be up to sustainable finance needs.

SPEAKERS

Chair

David Wright
President, EUROFI

Public Authorities

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

Jörg Kukies
State Secretary, Federal Ministry of Finance, Germany

Odile Renaud-Basso
Director General of Treasury, Ministry of Economy and Finance, France

Hans Vijlbrief
President of the Eurogroup Working Group and the EFC, Council of the European Union

Harald Waiglein
Director General for Economic Policy and Financial Markets, Federal Ministry of Finance, Austria and Member of the Board of Directors, ESM & EFC

Industry Representatives

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

Jean Lemierre
Chairman, BNP Paribas

Leonique van Houwelingen
Chief Executive Officer, BNY Mellon's European Bank

POINTS OF DISCUSSION

What are the European priorities for the financial industry to better finance growth?

Banking Union and Capital Markets Union: how to explain the limited progress achieved since many years in the integration of financial markets and what are the priorities for the upcoming Commission?

21:00 to 22:30 | GRAND BALLROOM

Speech: **Priorities of the Romanian EU Presidency in the financial area**

SPEAKER

Eugen Orlando Teodorovici
Minister of Public Finance, Romania

08:00 to 08:30 | GRAND BALLROOM

Exchange of views: **Viability of the Eurozone 20 years after its creation**

The Eurozone is still facing structural challenges and looking for a new equilibrium. A coordination of economic policies is urgently called for. The Euro summit on 14 December 2018 endorsed the plan for a "possible budgetary instrument for the euro area" and mandated the Eurogroup to undertake further "work on the design, modalities of implementation and timing of a budgetary instrument for convergence and competitiveness for the euro area". This summit clarified that the features of the budget instrument will be agreed in June 2019.

The objective of this session is to discuss the necessary actions required to ensure a viable EMU and tackle the weaknesses in the euro area architecture. Speakers will be invited to express their views on the conditions needed for achieving a political agreement on the modalities of a euro area budget with permanent resources and a Euro area governance, which supports the competitiveness and convergence of Euro area economies and the necessary measures to achieve symmetrical adjustments in countries with large and lasting current account imbalances.

SPEAKERS

Chair

Pierre Gramegna
Minister of Finance, Luxembourg

Discussants

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

Bruno Le Maire (tbc)
Minister of Economy and Finance, France

Euclid Tsakalotos (tbc)
Minister of Finance, Greece

POINTS OF DISCUSSION

What are the main structural weaknesses that the Eurozone is facing? How to explain them? What should be done at the domestic and the EU levels to address these weaknesses?

What are the necessary conditions for achieving a political agreement on the modalities of a euro area budget with permanent resources and a euro area governance, which supports the competitiveness and convergence of euro are economies? What are the limits of the current agreement achieved in December 2018?

How to address the "fundamental disequilibrium" between countries with current account deficits and those with persistently current account surpluses in order to ensure the viability of the monetary union?

FOLLOWING EUROFI EVENT

The Eurofi High Level Seminar 2020

22, 23 & 24 April

Zagreb - **Croatia**

08:45 to 09:45 GRAND BALLROOM

Addressing ring-fencing issues in the Banking Union

The Banking Union has been successful in promoting a more resilient banking sector. But it is still failing to deliver an integrated domestic a market for banking business.

There are remaining steps towards an effective banking Union. The quality of banks' assets has significantly improved, but the legacy of non-performing loans is still weighing on a number of banks. The sovereign- loop is still active in peripheral countries. There are s obstacles to the integrated management of bank capital and liquidity within cross-border groups operating in the Banking Union.

Finding a pragmatic agreement between the SSM and host national authorities on ways to abolish ring-fencing by agreeing arrangements remains a key priority. In addition, an overhaul of the present EU framework which focusses on supervision and resolution at the EU level while liquidation and government bail-outs are implemented at the national level for banks that are not considered of "public interest" by the Single Resolution Board is also needed.

The objective of this session is to assess the reasons why banking systems are so fragmented in the euro area despite the implementation of the SSM and the SRM and to discuss the key EU priorities to overcome it. The vicious "sovereign bank loop "will not be covered in this panel since it will be discussed in another session of the Bucharest Seminar. The issues related to the EU resolution framework will be covered in the following session of the Bucharest event.

SPEAKERS

Chair

Sylvie Goulard
Second Deputy Governor, Banque de France

Public Authorities

Burkhard Balz
Member of the Executive Board, Deutsche Bundesbank

Andreas Ittner
Vice Governor, Financial Stability, Banking Supervision and Statistics, Oesterreichische Nationalbank

Olli Rehn
Governor, Bank of Finland

Vitas Vasiliauskas
Chairman of the Board, Bank of Lithuania

Guillaume-Pierre Wunsch
Governor, National Bank of Belgium

Industry Representatives

Diony Lebot
Deputy Chief Executive Officer, Société Générale

Fabrizio Saccomanni
Chairman, UniCredit S.p.A.

POINTS OF DISCUSSION

Why has the Banking Union failed to provide the degree of financial integration that was expected?

Which EU policy priorities could overcome the fragmentation of the EU banking sector?

An efficient Banking Union would break the sovereign-bank vicious circle, foster a more effective allocation of resources across the Eurozone (e.g. companies would be able to tap wider and cheaper sources of funding), help to achieve a better diversification of risks thus contributing to private risk sharing within the Union. However, despite the implementation of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), the banking sector in Europe is too fragmented, not concentrated enough and oversized.

In an effective Banking Union, there should no longer be any distinction between home and host supervisors for banks operating across borders and the possibility of "national bias" playing a part in regulation or supervision should be eliminated

The distinction between home and host supervisors and the "national bias" still exists for banks operating across borders in the Banking Union. Indeed, regulators still believe that capital and liquidity will be trapped in individual Member States if a pan European banking group fails and are still concerned by the vicious "State-Bank" circle, which still exists in certain EU Countries. This perception is particularly acute in countries that are strongly dependent on foreign banks for the financing of their economies. This lack of trust between national authorities is one of the most damaging legacies of the recent financial and sovereign debt crises.

In addition, the EU legislative prudential framework does not recognize trans-national groups at the consolidated level but only as a sum of separate subsidiaries ("national or solo approach") notably due to the insufficient trust of Member States vis a vis the institutional set up of the Banking Union.

Consequently, ring-fencing policies are applied to capital, liquidity and bailinable liabilities. This clearly distorts the functioning of free banking markets, fragments them, contributes to the low profitability of banks in the EU and impedes the restructuring of the banking sector in Europe, which cannot benefit from the economies of scale of the single market compared to US banks for instance, which can rely on a large unified domestic market.

In addition, defining prudential requirements at group level should contribute to enhancing financial stability. For instance, the main benefit of defining MREL only at the group level rather than also on the level of each subsidiary (internal MREL) is that it increases flexibility. In the case of a loss in a subsidiary that would be greater than the amount of internal MRELs prepositioned in the country of this subsidiary, it would be easier to mobilize the required capital using centrally held resources from the parent company. If all resources have been pre-allocated, it is unlikely that any local supervisor would accept that internal MRELs located in their jurisdiction should be released and transferred to another one.

In such a context, it is essential to consider transnational banking groups of the euro area as unique entities from an operational, regulatory and supervisory perspective, and not as a sum of separate subsidiaries ("the solo approach"). To ensure such an objective, it is necessary to tackle the root cause of domestic ring-fencing practices.

The main conditions for the abandonment of the "national and solo approach"

In order to reassure local supervisors, European transnational banking groups that wish to operate in an integrated way need to commit to providing credible guarantees to each subsidiary located in the euro area in case of difficulty and before a possible resolution situation ("the outright group support"). This "outright group support" would consist of mobilizing the own funds of the Group to support any difficulties of a subsidiary located in the euro area. Since the level of own funds and the creation of MRELs have considerably increased the solvency of EU banking groups, they should be able to face up to any difficulty of their subsidiary located in the euro area. This group support should be based on EU law and enforced by EU authorities. This commitment is the key condition for these banking groups to define prudential requirements at the consolidated level. Given the high degree of banking intermediation in Europe, compared to other jurisdictions around the world, striving for a smoother movement of capital and liquidity, across EU countries, is essential.

In order to create a climate of confidence and trust, host countries should be associated and involved upstream in the establishment of living wills.

In addition, if the group was to go into liquidation (and not only local subsidiaries), a European approach to the liquidation of these transnational banking groups is also required. Indeed, even though these transnational banking groups are supervised at the EU level and the impacts of this liquidation would impact the whole euro area, liquidation is still managed at the national level (entity by entity) and this can require the public money of the Member State of the entity. A common liquidation regime for these banking groups should ensure an equal treatment of creditors of the same rank within the group and the addressing of possible costs at the EU level. In an interim stage one solution could be to extend to subsidiaries the liquidation approach currently used for branches, whereby resolution is managed under the regime of the parent company. This would allow all the subsidiaries of the Group to be treated under the same liquidation regime.

An alternative solution could be to facilitate the validation by supervisory authorities of the transformation of subsidiaries into branches for banking groups who wish to operate in a more integrated way. This requires that the national supervisors and Parliaments should receive the necessary information to understand the risks national depositors are exposed to from these branches and the possible impacts on the financing of their economies. This may require developing specific reporting instruments and processes for the local authorities to continue to be able to appropriately supervise local activities and thus contribute to supervisory decisions taken at the SSM level that may impact their jurisdiction.

These are the main conditions for the abandonment of the "national and solo approach".

Finally, when the more fiscal and structural convergences (such as a reasonable level of public debt in all Eurozone countries, …) are achieved, the more positive integration trends will creep into the Union and reduce the incentives for national authorities to "ring fence" transnational banks in terms of capital and liquidity, thus strengthening banks in their capacity to become pan-European players. In other words, a monetary union and all the more so a banking (or capital) union are not workable without economic convergence and fiscal discipline.

DAY 3 I 5 APRIL MORNING

08:45 to 09:45 CONSTANTA ROOM

DLT and digital tokens: opportunities and challenges for the EU financial sector

The objective of this session is to discuss the experience that market practitioners and regulators have had so far with the development, the testing and use of DLT (distributed ledger technology) solutions, the future prospects of these solutions in the financial sector and whether an optimal model has emerged for DLT. The panel will also address the main challenges that a wider-scale development of DLT is facing and whether the current EU regulatory and supervisory framework can adequately support this evolution.

How digital tokens may be used on DLT platforms to support certain payment or settlement processes will also be discussed.

SPEAKERS

Chair

Klaus Löber
Head of Oversight, ECB

Public Authorities

Leonardo Badea
President, Romanian FSA

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

Yuko Kawai-Yamada
General Manager for Europe, Bank of Japan

Joachim Wuermeling
Member of the Executive Board, Deutsche Bundesbank

Industry Representatives

Guillaume Eliet
Head of Regulatory, Compliance & Public Affairs, Euroclear

Alan Marquard
Chief Strategy and Development Officer, CLS Group

POINTS OF DISCUSSION

How are DLT use cases progressing in the financial sector and what lessons can be learned from the initial stage of development of DLT solutions? Has an optimal model for DLT emerged in the market? Can widescale applications of DLT be expected in the near future? How may digital tokens facilitate certain payment or settlement processes supported by DLT?

What challenges (regulatory, technological, risk) may hinder the broader use of DLT and digital tokens in financial markets and processes? How may these issues be tackled and should a more ambitious approach to DLT be developed in the EU?

All Eurofi publications
and the summaries of the events are on

www.eurofi.net

DAY 3 I 5 APRIL MORNING

09:45 to 10:45 GRAND BALLROOM

Developing an EU resolution approach for SSM banks (EDIS, insolvency law issues...)

The objective of this session is to discuss the priority areas for securing a common, transparent and predictable resolution regime, to assess the specific contributions of EDIS to the key objectives of the Banking Union and the stumbling blocks to overcome in order to move forward this completion of the Banking Union.

SPEAKERS

Chair

Klaas Knot
President, De Nederlandsche Bank
& Vice Chair, FSB

Public Authorities

Edouard Fernandez-Bollo
Secretary General, ACPR

Elisa Ferreira
Vice-Governor, Banco de Portugal

Elke König
Chair, SRB

Klaus Kumpfmüller
Executive Director, Austrian FMA

Boris Vujčić
Governor, Croatian National Bank

Industry Representatives

José Manuel González-Páramo
Member of the Board of Directors & Chief Officer
Global Economics & Public Affairs, BBVA

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

POINTS OF DISCUSSION

What are the priorities for securing a common, transparent and predictable resolution regime?

Can the Banking Union efficiently function without EDIS?

The Banking Union remains fragmented and incomplete

Banking markets are still fissured along national borders making financial sectors overly exposed to the same asymmetric shocks as their domestic sovereign. This weakens the global competitiveness of European banks and raises dysfunction risks in the face of a future shock. Indeed, the coincidence of sovereign distress and financial stability remains high.

There is little progress in cross-border lending, especially in the retail markets, or in other words, in lending to households and firms. Ring fencing should no longer be an issue in the Banking Union as there is now a single supervision authority and a single resolution authority which together unite all the National Competent Authorities. However, Member States insufficiently trust the institutional set up of the Banking Union. Indeed, they believe that capital and liquidity will be trapped in individual Member States if a pan European banking group fails. It is therefore essential to address the concerns of "host countries" vis a vis the EU crisis management framework (see the Eurofi paper on "Optimising the Banking Union") in order to define prudential requirements for the pan European banking groups at the consolidated level and to abandon the "national and solo approach".

Finding a pragmatic agreement between the SSM and host national authorities on ways to abolish ring-fencing

In this perspective, a pragmatic agreement must be found between the SSM and host national authorities on ways to abolish ring-fencing by agreeing to arrangements by which the host authorities have legal guarantees in case of banking difficulties. These guarantees, provided, as an option, by the parent company of transnational groups to their subsidiaries, should be agreed on now and in advance of possible future crises. In order to create a climate of confidence and trust, host countries should be associated with and involved upstream in the establishment of living wills.

Making more predictable the resolvability of failing banks whatever their size by a common application of the "public interest criteria"

Moreover, a common application of the "public interest criteria" by the Single Resolution Board, the EU Commission and the national Resolution Authorities would make more predictable the resolvability of failing banks whatever their size.

Balancing liability and control in the Banking Union

In terms of control or policy coordination, the SSM and SRM are responsible for bank supervision and resolution, while bank liquidation and government bail outs are still executed by Member States under national law for banks that are not considered of "public interest" by the Single Resolution Board. This can only reinforce the lethal link between the banks and the state and lead to a different treatment among the creditors of the same type in case of liquidation.

In terms of liability, the European level now bears part of the cost of bank failures: in addition to losses imposed on the private sector via bail-in, a Single Resolution Fund (SRF) and its backstop are being established. However, a part of the potential costs still lies with Member States since possible costs in the case of bank liquidation remain addressed entity by entity at the national level. Addressing this striking asymmetry between the supervision and the resolution at the EU level while, on the other hand, the liquidation of failing or likely to fail banks is managed at the national level (entity by entity) is therefore urgently needed.

Aligning the EU crisis management framework and national insolvency laws

Given the impossibility of harmonising all insolvency laws, it would be as a minimum highly desirable and possible to align the outcomes of insolvency law in the EU to ensure their full consistency with the EU resolution regime.

We should indeed align the EU crisis management framework and national insolvency laws. Currently, a bank that is declared failing or likely to fail under the BRRD and the SRM Regulation does not always meet the conditions that would make it subject to national insolvency proceedings. In fact, under national legislation present and actual illiquidity is usually required if insolvency proceedings are to get under way. But at the European level, not only actual but even likely illiquidity can be grounds for declaring a bank failing or likely to fail.

In addition, the EU crisis management framework should avoid situations whereby creditors of the same type in subsidiaries are treated differently or be seen as discriminated against. Furthermore, it could happen that some medium size banks under the SSM supervision might have in difficulty in raising on acceptable conditions the required level of MRELs. In that case the relevant banks could in principle only be liquidated and the possible ultimate outcome might well be to resort again to the old national bail-out if governments fear a disorderly liquidation.

Completing the Banking Union

Following the EU political agreement on the backstop to the Single Resolution Fund, the European Deposit Insurance Scheme (EDIS) remains one of the missing pieces of the Banking Union. All depositors should enjoy the same level of protection in the euro area. In this way, the European Deposit insurance Scheme would underpin stability in the banking sector by providing strong and uniform insurance coverage for all such depositors, independent of their geographical location in the Banking Union.

A possible way forward on EDIS is proposed in the Eurofi paper "The protection of deposits in the EU: Pros and Cons and a possible way forward" (see note in the Regulatory Update). Reaching an agreement on the deposit insurance mechanism would show inter alia that political commitments taken in 2012 have been fulfilled.

09:45 to 10:45 | CONSTANTA ROOM

Cloud and tech outsourcing: opportunities and challenges for the EU

This session will discuss the opportunities and challenges associated with the use of cloud computing in the financial sector, the specificities of cloud services compared to other outsourcing arrangements, whether the current EU regulatory and supervisory framework is adequate in this respect and if additional or more specific policy or market-driven measures are needed.

SPEAKERS

Chair

Mario Nava
Director, Horizontal Policies, DG FISMA, European Commission

Public Authorities

Nausicaa Delfas
Executive Director, International, FCA

Denise Garcia Ocampo
Senior Advisor, Financial Stability Institute, BIS

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

Jo Swyngedouw
Interim Chairperson, EBA

Industry Representatives

Richard Radley
Head of Customer Engineering, Financial Services, Google Cloud (London)

Arnaud Tanguy
Group Chief Security Officer, AXA Group

POINTS OF DISCUSSION

What are the main opportunities and challenges associated with the use of cloud computing services in the financial sector? Do cloud computing services have any specificities compared to other tech outsourcing arrangements? Are there any barriers to the wider adoption of cloud services in the EU? Does the development of cloud services create any new issues or risks?

Does the current regulatory and supervisory framework allow an appropriate development of cloud services in the EU financial sector? Can the specific risks and challenges associated with cloud computing be appropriately addressed with the current EU policy framework? Are more specific rules needed?

NEXT EUROFI EVENT

The Eurofi Financial Forum **2019**

11, 12 & 13 September

Forum organised in association
with the incoming Finnish EU Council Presidency

Helsinki - **Finland**

DAY 3 I 5 APRIL MORNING

11:00 to 12:00 GRAND BALLROOM

Developing a stronger European investment capacity

10 years after the financial crisis, European growth has finally returned but the contribution of investment to growth is lower on average than before the crisis. It remains sluggish at a time when the challenges indiscriminately faced by the EU - accelerating technological innovation via the digital revolution, climate change, an ageing population, emigration issues, the renewal and extension of infrastructure, European security and defense requirements…- demand an unprecedented investment effort in a context where some significant countries (Italy, France, Spain…) are very highly indebted and the households are generally risk averse and prefer to build up a savings buffer that is liquid to a great extent.

Paradoxically the euro area exhibits a savings surplus of more than €300 billion, or 3,5% of GDP in 2017, which is no longer being lent to the other euro-area countries but to the rest of the world.

The objective of this session is to assess the reasons why a stronger EU long-term investment capacity is needed and to propose key short- and medium-term financial priorities for the upcoming Commission in order to foster long-term investment in Europe.

SPEAKERS

Chair

Pervenche Berès
MEP, ECON Committee, European Parliament

Public Authorities

Burkhard Balz
Member of the Executive Board, Deutsche Bundesbank

Markus Ferber
MEP, ECON Committee, European Parliament

Pierre Heilbronn
Vice President, Policy and Partnerships, EBRD

Pablo Hernández de Cos
Governor, Banco de España

Industry Representatives

José Manuel González-Páramo
Member of the Board of Directors & Chief Officer
Global Economics & Public Affairs, BBVA

Cyril Roux
Group Chief Financial Officer, Groupama

Expert

Gérard de la Martinière
Chairman, Long-Term Investment Task Force
of the Paris Marketplace

POINTS OF DISCUSSION

Why is a stronger long-term investment capacity needed in the EU and what would it involve?

Who can play this role in the EU and what regulatory, supervisory and economic framework is needed to foster more long-term investment?

Long term investment remains below pre-crisis levels at a time when the challenges facing the EU demand an unprecedented investment effort

More than 10 years since the eruption of the financial crisis, growth has finally returned – on the whole – but investment, and especially long-term investment, is yet to reach pre-crisis levels. The challenges the EU is facing require an unprecedented long-term investment effort, where stable capital is key to finance the tangible and intangible assets we need for the future. At the same time, project sponsors are not prone to launch new investment projects. Moreover the challenges faced by the EU financial system 10 years ago, which are still pending in some areas, have led regulators and supervisors to put the onus on "financial stability". This work program was defined by the G20 Financial Services Board in the main sectors concerned (banks, insurers and CCPs) by the approach "solvency, systemicity, resolution".

As this 10-year effort in financial regulation has now largely reached its objectives, with a conceptual focus on the resistance of single entities to default through a reinforcement of their own funds, it is time to open the discussion on to other policy objectives and tools.

If the EU wants to be sovereign and prosperous, it must strengthen its long-term investment capacity

A radical change and a strong political impetus are therefore needed. A coherent and comprehensive long-term investment policy is essential to close the gap. Public funding cannot be sufficient to close this long-term investment gap. The results of the "Juncker Plan" underline that the mobilization of public funds is not equal to the financing challenges and encourages the exploration of other techniques in order to optimize the effect of public funding.

It is also imperative to remove prudential and accounting constraints that prevent financial institutions from channeling savings collected towards long-term investments. In this perspective, better understanding and defining the nature and specificities of the long-term risk and its dedicated prudential framework is an urgent priority.

More generally, such a stronger European long-term investment capacity requires not only a shared political vision on the key industrial strategic choices for the essential sectors (renewable energies, the circular economy, digital, new technologies…) but also financial players of sufficient size and competitiveness who can rely on a truly integrated financial market, appropriate prudential and accounting rules that do not discourage investment in equity in particular, adequate investment products and an efficient provision of retailed investor information and advice provided by financial intermediaries.

Optimising the impact of public financing

Public funding is compulsory but cannot be sufficient to close the long-term investment gap in Europe. The political challenge has to go well beyond the need to ensure the real "additionality" of the projects financed by the "Juncker Investment Plan". With an initial contribution of €21 billion, it has mobilised €335 billion over three years, which has boosted investment in Europe. But the results of this EU initiative also underline that the mobilization of public funds is not equal to the financing challenges and invite to explore other techniques to optimize the effect of public funding.

Europe must define and implement economic and financial conditions in order to free up public and private initiative. Public authorities play a central role in long-term planning. They are the only ones capable of addressing the uncertainties related to the long-term strategies put in place to address for instance energy transition challenges (such as the choice of the proportion of nuclear power according to the sensitivity of voters, the reweighting of the share of wind power, etc.). This is the reason why the public guarantee must be applied in a preferential manner to cover the uncertainty risk (notably political) associated with the long-term forecast. In this perspective a public insurance mechanism should certainly be a right way forward.

This scheme should mitigate the uncertainties linked to the industrial strategic guidelines provided by public decision makers. The challenge is to go beyond the direct participation of the public authorities in the financing of these investments. Indeed, only an EU insurance mechanism would enable project sponsors and their financiers to commit to long term investments. These are the conditions for achieving an effective additionality of the projects made possible by the intervention of the public sector.

Prudential and accounting standards should acknowledge that the long term does not entail greater risk, but presents a different risk profile, which needs to be analysed and calibrated in a specific way

Prudential and accounting regimes for long term investment, whether they relate to banks, insurance companies or those governing the distribution of funds associate long-term with high levels of uncertainty and focus on market and liquidity risks. But we have to keep in mind that long term reflects the very nature of our financial institutions, which are here to stay and which clients shall be able to trust upon. The average duration of the liabilities is close to 14 years for European life-insurers, for example. Against this background, is that such a problem if a life insurer invests more in equities, which holding period is currently around 4,5 years, or in a private equity fund whole holding period is currently close to 6 years?

This is the specificity of long-term financial players: for them, there is no contradiction between matching their liabilities and holding their long-term investments to maturity, contrarily to a "trading book" approach reflecting mainly market risks. In this context, prudential frameworks shall develop more "hold to maturity" or "hold to duration" asset classes allowing for reduced market shocks, with criteria protecting these asset classes absent short-term, trading book-like shocks. Another specificity is a potentially countercyclical investment behaviour of these players through the financial cycle and investment choices voluntarily abstracting from short term volatility and selecting assets on the basis of their yields on the long run : this means also that penalizing the assets invested with this strategy in prudential framework for their bigger volatility (or illiquidity) is a great mistake (sadly made very recently by the insurance International Capital Standard, which will contain a specific volatility shock for equities). Last point: entities investing in the long term, for decades, for example pension funds, sovereign funds or insurers holding pension risks, are the only ones able to finance long term activities and projects with positive returns for the society as a whole, like infrastructures, private placements, venture capital or projects for the energy transition in general.

Moreover, current risk assessment systems only depict the future as an occurrence of the phenomena witnessed in the past. This proves particularly inadequate to capture long-term risks such as the current climate-related disruptions, the risks of which are linked to the socio-economic adaptations and numerous and competing technological challenges. More emphasis shall be put on prospective supervisory tools like the insurance ORSA or recovery plans in resolution.

The construction of a coherent system of evaluation but also of the management and mitigation of long-term risks is urgently needed. This system must be specific to actors who are not subject to short-term risks. In such a context, better recognizing and defining the nature and specificities of the long-term risk and defining the dedicated prudential framework is an urgent priority, as well as defining explicitly its objectives. Such a long-term framework must be open to all financial players likely to have a long-term investment strategy based on stable resources and also on the reality of long-term risks as well as on a performance measurement consistent with the duration of the investment.

12:00 to 12:30 GRAND BALLROOM

Closing remarks: **Opportunities for developing EU autonomy in the financial area post-Brexit**

SPEAKER

François Villeroy de Galhau
Governor, Banque de France

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About EUROFI

The European Think Tank dedicated to Financial Services

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

MAIN ACTIVITIES

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

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

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

Events and meetings:

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

Research and documentation:

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

MAIN TOPICS CURRENTLY ADDRESSED

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

NEXT EUROFI EVENTS

11, 12 & 13 September 2019
Helsinki - **Finland**

22, 23 & 24 April 2020
Zagreb - **Croatia**

September 2020
Berlin - **Germany**

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