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Keeping the momentum for both preparing & strengthening the financial European system

It is the responsibility of the financial industry itself to prepare for the consequences of Brexit, starting with the loss of the benefits of the European financial passport for UK institutions. In this regard, regulatory and supervisory bodies have stated from a very early stage the principles that should be followed by supervised entities (in particular the prohibition of empty shells). Furthermore to cope with the consequences of the British withdrawal in the absence of a deal, supervisors have (i) engaged institutions, (ii) monitored actively the design of detailed and prudent plans and (iii) followed their implementation. Most major players have already taken the necessary design steps and started implementing their initial plan for «day1», but some concerns linger regarding the preparedness level of smaller players, particularly electronic money and payment institutions.

The relevant measures have been taken by public authorities at both European and national levels to deal with the specific risks of a no-deal Brexit that could threaten financial stability or consumer protection. At the European level, these measures include the temporary and conditional recognition of British CCPs, or temporary waivers on mandatory clearing and bilateral margin exchange for a limited category of products. Member States have also adapted their domestic regulations. In France, legislation has been enacted to ensure continuity of financial contracts (e.g. OTC derivatives or insurance contracts), introduce some ISDA master agreements under French law and maintain an extended access to UK settlement systems by French entities.

The decision of the European Council to extend the Article 50 TFEU period allows for a few more months to prepare for a possible hard Brexit, but has translated in a loss of momentum in the preparation process. Therefore, the message must be restated with emphasis on the need for all to continue preparing actively for a no-deal. For banks, efforts should be maintained or stepped up in order to fully implement target operating models.

The momentum should also be kept in further strengthening European financial services as a reshaping of the landscape is inevitable. The most plausible scenario is that of an integrated polycentric network of financial centers.

Among the challenges to be met to that end is the design of post-Brexit equivalence regimes. In this regard the developments introduced by EMIR2 regarding both the power – via ESMA – to directly supervise third-country CCPs which have a systemic footprint vis-à-vis the EU and the reinforcement of the equivalence regime are most welcome. They remain to be implemented. The monitoring and control of equivalence decisions could also be improved by granting more power to the ESAs, and by providing the European Commission with more gradual options through flexible tools in the case of regulatory divergence: for example, temporary, partial or conditional lifting of equivalences.

But most importantly, we should pursue the efforts towards building an integrated and efficient European financial system. The way forward is what François Villeroy de Galhau and Jens Weidmann termed the "Financing Union for Investment and Innovation". It should notably be built on (i) a consolidated banking system with more pan-European financial institutions able to operate seamlessly at least within the single jurisdiction which the euro-area should be reaping the full benefits of the Banking Union (ii) reclaimed sovereignty in retail payments through genuine pan-European payment solutions (iii) resolute progress on the Capital Markets Union on topics such as the harmonization of insolvency regime. ●