

CMU Policy Update

November

HIGHLIGHTS

- European Commission: new public consultations on ESG and supervisory reporting
- European Parliament: Plenary votes on retail financial services, ECON hearing with Dombrovskis
- Council: Baltic states agree to integrate regional capital markets, ECOFIN discusses ESAs reform

European Commission

Commission launches Public consultation on institutional investors and asset managers' duties regarding sustainability – 13 November

The European Commission has launched a [public consultation](#) on the possibility of integrating environmental, social and governance (ESG) factors and long-term sustainability into the fiduciary duties (duties of loyalty and prudence) of institutional investors and asset managers.

The aim of this public consultation is to collect the views and opinions of interested parties on this issue in order to inform the impact assessment process. The Commission is expected to publish its Action Plan on sustainable finance with regulatory measures on 7 March 2018. Further sustainable finance measures, including fiduciary duties and taxonomy, are expected for 23 May 2018.

The public consultation's deadline is 22 January.

Commission publishes interim report on Call for Evidence exercise – 1 December

The Commission has published a [progress report](#) on the Call for evidence exercise.

The Commission launched this legislative review exercise early last year in order to assess to what degree financial sector legislation leads to unintended consequences, conflicting or duplicating requirements, and other inconsistencies.

Of particular interest, under the heading "Reducing undue regulatory burden", the Commission reports that:

- It is working with member states to address the issues caused by the divergences in transposition of 11 EU Directives
- For 10 other Directives, such as the Audit Directive, the mapping exercise is still ongoing and should be completed in 2018
- The Commission is also assessing the national transposition measures for the Transparency Directive and the Accounting Directive and will launch a "Fitness Check" by the end of 2017 on EU financial reporting and transparency requirements

Commission launches Public consultation on supervisory reporting – 1 December

As part of its Call for Evidence exercise, the Commission has launched a [public consultation](#) on supervisory reporting requirements.

The consultation aims to gather evidence on the costs of compliance with existing EU supervisory reporting requirements in force since the end of 2016), as well as on the consistency, coherence, effectiveness, efficiency, and EU added value of those requirements.

In particular, it seeks to collect concrete quantitative evidence on, among others, any investments required to meet the supervisory reporting requirements. This includes gathering specific examples of inconsistent, redundant or duplicative supervisory reporting requirements (e.g. reporting the same information under different frameworks or to different supervisory and/or regulatory entities). The consultation also seeks feedback on ways in which supervisory reporting could be simplified and streamlined.

The deadline for responding to the consultation is 28 February 2018.

European Parliament

Parliament votes on its position for retail financial services – 13/14 November

The European Parliament Plenary has voted on its [position](#) on retail financial services. The report was adopted in a single vote without amendments with 489 votes in favour, 126 against and 64 abstentions.

The European Parliament's opinion is a non-legislative own-initiative report, and as such commits neither the Commission or member states to any particular course of action. However, it sends a strong political signal to the

Commission on how the Parliament will position itself ahead of prospective future Commission proposals, on which the European Parliament will have an equal say to that of the member states.

MEPs highlight their priorities for improving retail financial services in Europe

Ahead of the vote, the MEPs held a debate in Plenary to express their views on the draft position. During this debate, the leading MEP **Olle Ludvigsson (S&D/SWE)** stated that the market for retail financial services is insufficient and must be developed in order to deepen the Single Market. In particular, he emphasizes that there is a need for an overview of the situation to improve transparency, in order to increase innovation and reduce high charges for financial products such as pensions.

In addition, Mr. Ludvigsson believes that the legal framework must be changed to take account of increasing digitalisation. Furthermore, the Commission should address cross-border issues, such as banks making it more difficult for consumers to retain their financial products when they move to another member state. Customers should be able to change financial services providers and, in this regard, the EU must address geo-blocking. In the long term, a pan European system for e-identification will need to be introduced, he said.

On the issue of dynamic currencies, Mr. Ludvigsson explained that consumers often have the choice to pay in the local currency or in their own currency when abroad. It is more expensive to pay in the former, although consumers may not be aware of this. On consumer credit, it is extremely important to create a functioning internal market in order to avoid over-indebtedness of households. In addition, the credit worthiness of individuals needs to be addressed in a harmonised manner.

Some other comments during the discussion included the following:

- **Stanislav Polčák (EPP/CZE):** as Czech Republic does not use the euro, cross-border transaction charges are a particular concern there. The amount of these charges results in consumers being reluctant to carry out cross-border transaction. Thus, he welcomed that the scope of the report was widened to include this
- **Notis Marias (ECR/GRE):** commented on loans that are taken out in Swiss francs in Greece. The mortgage holder technically pays off their mortgage. However, they end up owing more money than when they started due to currency fluctuations. People taking out loans must be made aware of such risks, he highlighted
- **Marisa Matias (GUE-NGL/POR):** commented that the problems pertaining to retail financial services concern the products themselves. There were a series of actions undertaken by financial institutions in Portugal which people have suffered from, such as speculation, and people's savings are being used as chips to play with. Products must be simplified, she stressed

Commission answers the call

At the end of the debate, **Commissioner Corina Cretu** (regional policy) highlighted that consumers' trust must be secured and barriers across borders need to be removed. The Commissioner then noted that at the beginning of 2018 legislation aiming to tackle cross-border fees will be proposed. This will particularly aid countries that do not use the euro.

The Commissioner also stressed that highly mobile citizens need a means of electronic identification that would work wherever they reside in the EU. In that way, providers of financial services can serve consumers across Europe. Lower transaction costs and e-identification are the best ways to empower citizens, she emphasised.

Additionally, more market transparency is required, and therefore all barriers to finance will be addressed. The Commission also seeks to introduce common standards to assess capacity to take out loans across Europe. All Europeans should have equal access to the highest quality financial services across the EU, she underlined.

Concluding, the Commissioner said that FinTech was a key enabler with regard to financial services. The Commission is planning to produce a FinTech action plan in the near future (NB most probably to be published on 7 March 2018).

ECON hearing with Vice-President Dombrovskis – 21 November

The ECON Committee has held an [exchange of views](#) with **Vice-President Dombrovskis**. The debate touched upon a wide variety of issues including the CMU, Banking Union, NPLs, Fintech, the ESAs review and reforms relating to EMIR and CCPs.

Commissioner Dombrovskis presents CMU objectives looking ahead

The Vice-President opened the hearing by [reminding](#) that Brexit makes the CMU even more pertinent. Two thirds of the original CMU plan have already been delivered upon. Looking ahead, the Dombrovskis wants consumers to have greater choice and better access to retail financial services. The European Personal Pensions Product (PEPP) proposal is part of this trend. Moreover, cross border payment will be the subject of a new proposal early next year. In addition, there will be a proposal on cross-border funds.

Dombrovskis also emphasised that there should be more funds available across borders. Supervision is also a key aspect of boosting the integration of financial markets, hence the recent ESAs review. Early next year, the Commission also intends to come forward with a framework for covered bonds.

COMMISSION'S PLANS for FinTech and sustainable finance

In terms of FinTech, an Action Plan will be produced next year, together with a EU wide plan for crowd funding and steps on digital payments (NB these are expected for 7 March 2018 as a part of a major CMU package). With regard to the latter, the Commission wants to provide a safe environment for the development of new safe payment services. The crowd funding initiative, in turn, will seek to address problems such as market fragmentation and the perceived lack of reliability of crowd finding platforms.

Caroline Nagtegaal (ALDE/NLD) asked the Vice-president about the cyber security and financial stability risks of FinTech. Dombrovskis explained that the FinTech taskforce is looking at all new risks created by FinTech, including cyber security. However, cyber security is not limited to FinTech as it is a challenge for all financial institutions. There should be proper governance of IT risks. Overall, the Commission is approaching FinTech with technological neutrality as its starting position.

On sustainable finance, Dombrovskis argued that the EU could become a magnet for green investment. This will be a key issue in the upcoming summit in Paris and the High-Level Task Force on sustainable finance is expected to deliver its report nearly next year. Following this, the Commission will present an Action Plan with regulatory measures (NB probably 7 March 2018). This will be followed by more detailed sustainable finance measures, including on fiduciary duties and taxonomy – probably on 23 May 2018.

Council

Baltic states aim for integrated regional capital markets – 6 November

Estonia, Latvia and Lithuania have [signed](#) a Memorandum of Understanding to stimulate the development of regional capital markets.

The tripartite agreement identifies areas of cooperation and the reforms to be carried out by the three Baltic states in order to achieve their objectives. This will include the establishment and improvement of the underlying legal framework, the introduction of new instruments (for instance on covered bonds and securitisation) and the creation of the necessary market infrastructure.

The Commission and the European Bank for Reconstruction and Development (EBRD) will support these efforts, for instance by creating a common regulatory framework for the covered bonds markets. **Commissioner Dombrovskis** described the move as “another step on the road to creating CMU”.

ECOFIN discusses ESAs reform – 7 November

EU finance ministers have held a first discussion on the Commission’s proposal for reforming the European Supervisory Authorities (ESAs).

The discussion revealed some disparities between member states. France, which already hosts ESMA in Paris and recently also won its bid to host the EBA (see article below), is supportive of the Commission’s proposals. France highlights that ESMA needs to be significantly beefed up in order for it to appropriately fulfil its supervisory duties in an integrated EU CMU. The Netherlands is in line with the French in calling for a meaningful revision of EU financial sector supervision.

Most other member states, Ireland and Luxembourg in the forefront, are more critical of the Commission’s proposals and call for less ambition from the Commission’s part. For example, Luxembourg and Ireland feel that the Commission did not listen to stakeholders properly during its public consultation. Most stakeholders expressed their preference for no major changes to the system. The two countries argue that the measures will make administrative procedures more complex, cumbersome and expensive for market players.

Germany, Sweden, Hungary, Poland, Latvia and Czech Republic argued in favour of improving existing instruments, rather than opting for more fundamental reforms. Strengthening ESMA’s powers, in particular, was met with strong scepticism.

For further details on the Commission’s ESAs reform proposal, please consult Accountancy Europe’s [CMU Policy Update](#) from September.

Council adopts securitisation compromise – 20 November

EU member states have formally [adopted](#) the compromise reached with the European Parliament on STS securitisation. The compromise text can now become EU law.

ECB & ESAs

EBA relocated to Paris – 20 November

The European Banking Authority (EBA) will be [re-located](#) from London to Paris.

The re-location decision follows weeks of negotiations and bargaining between the member states, a long process at the end of which the final victor city between Paris and Dublin had to be decided by a draw. Paris already hosts the European Securities and Markets Authority (ESMA).

Other News

Retail investor and civil society organisations publish letter on ESAs reform – 27 November

A group of retail investor and civil society organisations have published a [joint letter](#) underlining their priorities for the reform of the European Supervisory Authorities (ESAs).

The associations feel that the current proposals on the ESAs reform are far from the ambition needed to put in place a framework for financial supervision that ensures the protection of consumers and the financial system. They call, amongst other things, for a “twin peaks” model of EU financial supervision, the establishment of a EU Financial Consumer Protection Agency, and additional changes to the ESAs’ governance and mandate.

The signatories are Finance Watch, BEUC, Better Finance, EFIN, COFACE Families Europe and AGE Platform Europe.

Events

- 06/12/2017, *Accelerating EU leadership in sustainable finance*, Finance Watch, Brussels. [Source](#)
- 14/12/2017, *A Digital Presidency: Takeaways from Estonia's programme for a Digital Europe*, CEPS, Brussels. [Source](#)