European Financial Services Round Table

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EFR PAPER ON GLOBAL REGULATORY ISSUES AND INTERNATIONAL RELATIONS

The European Union's (EU) policy of open markets and strong cooperation has made it one of the world's most thriving and competitive regions. However, the EU's role in this fast-changing world cannot be taken for granted: rapid digitalisation, the transition to a sustainable economy, and fragmentation driven by political developments such as Brexit and ongoing trade tensions, pose big challenges for the EU's competitiveness and global position. In order to bolster its position as a global political and economic leader, the EU will need to take an ambitious, outward-looking and strategic approach to improving the EU's competitiveness and counter current fragmentation trends by removing barriers and impediments. To this end, it is important for the EU institutions to play a leading role in promoting continuous engagement with foreign government's administrations and counterparts.

Recommendations to improve global relations and EU competitiveness

1. Global standards

Regulatory cooperation at global level is vital for the EU. Internationally operating financial groups based in the EU benefit from global standards providing added value to their customers through efficiency gains and increased competition as a result of an international level playing field. Therefore, it is important that the process that leads to the adoption of global standards is informed by a diverse range of stakeholder perspectives, so that they take into account the specific characteristics of different jurisdictions.

While finance has become increasingly globalised, financial firms still need to take into account local aspects of the markets they operate in, particularly in the case of retail banking and insurance. Global standard setters and national authorities implementing these standards should exchange views regularly and be mindful of that when introducing conduct as well as prudential standards proportionally.

Elected representatives also have an important role to play in weighing the advantages of global standards against local market characteristics, and in building and defending the legitimacy of regulatory frameworks. Therefore, it is essential, that national, regional and European representatives have a clear role in the process of designing, implementing and transposing global regulatory frameworks, taking into account, where required, regional or national characteristics.

In the same vein, it is important that the relationship between the Single Supervisory Mechanism (SSM) and the Supervisors of Third Countries that are relevant for European banks are as smooth and well-structured as possible. That bilateral cooperation requires specific arrangements that are normally materialized through memoranda of understanding (MoU's). However, the existence of those MoU's is not transparent and, more importantly, not all of them are in place.

> ***Recommendation 1:*** The European Commission and national authorities should continue to engage strongly in the global standard-setting process. They should take into account both the specific characteristics of the European banking and insurance environment and the international context – the way other jurisdictions implement the final requirements – to ensure a level-playing field and maintain alignment as far as possible, including on timing, with other major jurisdictions.
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> ***Recommendation 2:*** Global standard setters should improve transparency and accountability, facilitating systematic, ex-ante consultation of stakeholders including industry and develop stronger feedback loops with elected representatives so that all perspectives are understood before standards are finalised.
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> ***Recommendation 3:*** Given the global presence of EFR institutions the SSM and the NCAs have to make sure that they have in place all the cooperation agreements with the third countries Supervisors that are relevant for European financial institutions.

2. Derogations

In financial sector EU legislation various articles allow for granting exemptions, the so-called derogations. For example, the European Market Infrastructure Regulation (EMIR) gives ESMA the power for the exemption from margin rules for cross-border intragroup transactions and for equity options and indices. The US market participants are able to use an exemption process under U.S. Commodity Futures Trading Commission (CFTC) Rules, while In the US equity options do not fall in scope and therefore require no margin. ESMA extended the derogation recently but again for a short period, only until December 2020 for intra-group and January 2021 for equity options.

In case certain derogations are not extended, this could damage the competitiveness of European markets and market participants when US market participants can benefit from the exemption process under U.S. CFTC Rules. Not extending these EU derogations will lead to competitive disadvantage for European market participants.

> ***Recommendation 4:*** As a general rule maintain certain derogations where the EU loses its competitive position when other countries do not converge.

3. EU leadership on the global stage: sustainable finance, digitalisation and the international role of the euro

3.1. Sustainable finance

The EU is already a global leader on sustainable finance and it is in a position to lead the regulatory debate on an issue that will become increasingly central for international jurisdictions. Further, climate change can only be addressed through coordination and cooperation at a global level. To this end, the EU should drive the development of global standards in this area that are sufficiently flexible to keep pace with market developments, informed by practices that have been articulated in Europe. Moreover, the EU should ensure that decisions taken in the internal market do not become eventually a constrain for European companies to compete in equal terms in international markets. A key example of this is the proposed stress tests announced by the European supervisory authorities, which should factor global competitiveness into any actions that come out of this process.

In addition, the EU should incorporate sustainable finance into the various forums and channels through which it engages outside of its borders. In addition to diplomacy and international rule making bodies this extends to trade policy, international aid and foreign policy, including at the G20 and G7 level. The EU should encourage the Financial Stability Board to review long term risks to financial stability such as climate change, including by amplifying the work of the Central Bank and Supervisors Network for Greening the Financial System (NGFS).

3.2. Digitalisation

Similarly, key digital challenges can only be solved globally, due to its cross-sectoral and cross-border nature. The appropriate international organisations should coordinate actions in the digital policy space. We encourage EU authorities to take a leading role in these international debates, building on its leading edge on data protection, while defining an EU response that ensures that new competition in the financial sector is growth-enhancing and coherent with our rights and values. A clear example of these challenges is the recent announcement of global cryptocurrency Libra, which has raised questions around systemic risks, data privacy, competition, monetary policy transmission and anti-Money laundering.

One of the biggest risks created by digitalisation, is cyber crime. The global nature of cyber crime requires a coordinated approach at international and European levels and that involves the public and the private sectors.

3.3. International Role of the Euro

The International Role of the Euro should remain a key priority for the European Commission. It would help improving the resilience of the international financial system, providing market operators across the globe with additional choice and making the international economy less vulnerable to shocks linked to the strong reliance of many sectors on a single currency. In addition, the euro could continue facilitating and expanding Europe's trade agenda, allowing European companies to trade without disruptions all over the world to the benefit of Europe's economy, while at the same time safeguarding the European social and regulatory model at home.

However, it is key to underline that the attractiveness of the euro can only be based on a single, stable and competitive single market (including the financial market). For reaching this goal, a successful economic and monetary union, banking union and capital market union are indispensable, as they will properly attract capital and liquidity from external investors.

> ***Recommendation 5:*** The EU should incorporate its position on sustainable finance into the various forums and channels through which it engages outside of its borders and it should ensure that stress tests do not create competitive disadvantages for the European financial sector.
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> ***Recommendation 6:*** The EU should incorporate its position on digital challenges into the various forums and channels through which it engages outside of its borders and it should ensure equal competition between different players.
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> ***Recommendation 7:*** International standards and minimum requirements that are sufficiently flexible to keep pace with market developments should be driven by the EU, informed by existing practices.
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> ***Recommendation 8:*** To accomplish a strong international role of the euro, the EU should strive to complete the economic and monetary union, banking union and capital markets union.

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.