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GR 2014 eu
Hellenic Presidency of the Council of the European Union

The Eurofi High Level Seminar 2014

Organised in association with the Greek EU Presidency

31 MARCH - 1 APRIL

ATHENS

PROGRAMME

Combining resilience and growth

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Content

Combining resilience and growth

Monday, 31 March

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09:00-10:30	**Expected evolution of bank and market intermediated financing and of the competitiveness of the EU financial system following on-going reforms**	Terpsichore
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Tuesday, 1 April

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08:00-08:30	Keynote speeches	Terpsichore
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The Seminar is organised with the contribution of the Eurofi members

EUROFI MEMBERS

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HELLENIC EXCHANGES GROUP

08:30 to 09:00

Terpsichore

Main priorities of the Greek EU Presidency in the financial area

Monday 31 March // Opening session

Monday – 08:30

Speakers of the session

Chair

- **Jacques de Larosière**
  President, EUROFI

Opening speeches

- **Yannis Stournaras**
  The Minister of Finance, Hellenic Republic
- **Georgios A. Provopoulos**
  Governor, Bank of Greece
- **Konstantinos Botopoulos**
  Chairman, Hellenic Capital Market Commission

Introductory Remarks

- **Didier Cahen**
  Secretary General, EUROFI

09:00 to 10:30

Terpsichore

Expected evolution of bank and market intermediated financing and of the competitiveness of the EU financial system following on-going reforms

Monday 31 March // Plenary session

Monday – 09:00

Speakers of the session

Chair

- **Andrea Enria**
  Chairperson, European Banking Authority

Introductory Remarks

- **Mark Garvin**
  Vice Chairman, Corporate & Investment Bank, J.P. Morgan
- **Jennifer Taylor**
  Chief Operating Officer EMEA, Bank of America Merrill Lynch

Public Authorities

- **Mark Carey**
  Associate Director, Division of International Finance, Federal Reserve Board
- **Luc Everaert**
  Assistant Director, Monetary and Capital Markets Department, International Monetary Fund
- **Mario Nava**
  Director Financial Institutions, DG Internal Market and Services, European Commission

Expert

- **Paul Tucker**
  Senior Fellow, Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School and Harvard Business School

Industry Representatives

- **Philippe Bordenave**
  Chief Operating Officer, BNP Paribas
- **Garett Curran**
  Chief Executive Officer for the UK & Ireland, Credit Suisse Securities (Europe) Limited
- **Fabrizio Campelli**
  Head of Group Strategy (AfK), Deutsche Bank
- **Charles C. D. Haswell**
  Global Head, Financial Sector Policy, HSBC Holdings plc
- **Alastair Wilson**
  European Chief Credit Officer, Moody's Investor Service Limited

Points of discussion

- What are the anticipated evolutions of bank and market-intermediated credit in the EU in the medium and long term with the implementation of on-going financial reforms (once the banking system is adequately repaired): development of market finance, evolution of the level of bank intermediation, expected role of securitisation?
- How can one explain the current performance of EU banks (e.g. reduced profitability of some banks) and the limited development of market finance in the EU? What are the added value and limitations of existing E.U. market financing tools used by banks to address the regulatory liquidity and capital needs of E.U. banks (securitisation, Pfandbrief, covered bonds, etc.)?
- What is the level of visibility of the end game of the EU financing structure (e.g. possible share of bank vs market intermediated credit…) and what is the expected speed of these evolutions?
- How are the financing mechanisms expected to evolve in other geographies with the implementation of international capital, liquidity and financial requirements? Are they comparable to those anticipated in Europe?
- What are the expected impacts of the evolutions of the EU financial system in terms of competitiveness (efficiency, costs), risks (e.g. transfer of risks from banks to end-users, overall riskiness of the financial sector, etc.), complexity, leverage and transparency, maturity transformation, money creation and access to finance?
- Can these evolutions be left to market forces? What role may the E.U. public sector play in structuring or monitoring the evolution of the EU financial sector in order to ensure that sufficient financing is available for economic growth?

BACKGROUND OF THE SESSION

In the context of the FSB's SIFI Framework endorsed by the G20 in November 2010, the International Association of Insurance Supervisors (IAIS) published in July 2013 a methodology for identifying Global Systemically Important Insurers (G-SIIs) and a set of policy measures that will apply to them. These policy measures encompass recovery and resolution planning, enhanced group-wide supervision in particular overseeing the development and implementation of a systemic risk management plan, and lastly High Loss Absorbency requirements (HLA) for Non-Traditional and Non-Insurance activities (NTNI) to be met by the highest quality capital.

Based on the methodology proposed by the IAIS on 2011, the FSB has identified an initial list of nine G-SIIs, which is expected to be up-dated annually starting from November 2014. The status and related mitigation measures, of major global reinsurers is to be decided in July 2014.

Some of the key implementation milestones are the establishment of the Crisis Management Groups (CMG) and the completion of the Systemic Risk Management Plans (SRMP) for the first 9 G-SIIs in July 2014, the development of related capital requirements by the 2014 G20 Summit, and the development and the agreement by the CMGs of the Recovery and Resolution plans including liquidity risk management plans by the end of 2014. Implementation details for HLA should be developed by the end of 2015, to be applied starting from 2019. HLA will be built on the global Basic Capital Requirements (BCR) for G-SIIs, which are expected to apply from 2015.

The IAIS has undertaken in parallel an effort to address the issues posed to the supervisors by Internationally Active Insurance Groups (IAIG), a Common Framework (ComFrame) for the supervision of IAIGs, which started in 2010.
This framework, which is based on the IAIS Insurance Core Principles (ICP) seeks to improve the coordination of the supervision of IAIGs across jurisdictions to address their complexity and the international nature of their activity. It will define the criteria and process for identifying IAIGs, the requirements they are expected to meet, and lastly defines the process of supervision – e.g. supervisory process, enforcement, cooperation rules, and notably the role of the group-wide supervisor.

The IAIS has also decided to complement the ComeFrame with a risk based global Insurance Capital Standard (ICS). The completion of the ICS is scheduled at the end of 2016. It will apply to IAIGs from 2019 after refinement and final calibration in 2017 and 2018.

These efforts represent a consistent set of initiatives bent towards the definition of an international regulation expected to address both the issues posed by the globalisation of insurance companies and the necessity to face up to possible systemic risks emerging from certain activities undertaken by the insurers.

In this context, the BCR, which should allow a definition of the capital add-ons possibly required by G-SIIs, would represent the first step of the ICS toward an application on all IAIGs. Furthermore these international standards are not thought of as additional constraints to the various sophisticated regulatory frameworks already in place in different geographies (Japan, Canada, Switzerland, Mexico, the E.U., etc.). They are expected more generally to contribute to their harmonisation. They should in particular contribute to defining at the global level common approaches to assessing the risk of the assets and the liabilities of insurance groups for the purpose of supervision, and define common categories of risk, propose common approaches to factor in diversification effects and internal models, etc.

The challenges posed by completing a sophisticated risk-based framework at the global level in a tightened timeframe, combined with the challenges raised by effectively taking into account the specificities of the insurance business model when it thus comes to assess and mitigate the possible systemic importance of insurance groups.

Indeed the regulators have to factor in that insurance is funded up-front, which gives insurance undertakings strong operating cash flows and frees them from any wholesale short-term funding. Moreover, to back their liabilities, which are generally medium and long term with controlled out flows, the insurers accumulate capital and have large amounts of investment under management. In general these investments are not exposed to the short-term liquidity risks faced by financial markets. In addition, traditional insurance risks, which are not correlated with economic cycles, get benefit from the geographic and activity diversification of insurance groups. Banks by contrast, are involved in credit risk, which is highly correlated with economic cycles the impacts of which on financial stability are amplified by the maturity transformation of short-term liquid liabilities on longer-term loans.

In this context it is important to emphasise that financial institutions behave in different ways in the event of systemic stress. The business model of each sector has to be well understood and the consequences for regulation fully drawn.
In that respect policy makers must refrain from applying bank like regulatory approaches. For the insurance sector, the absence of leverage on the one hand and on the other hand the "timing feature" that allows a significant period of time for winding up a failed insurance company, fundamentally make the overall systemic debate quite irrelevant for this sector apart from a very few specific activities. In particular High Loss Absorption capacities (HLA) should not be imposed across the entire balance sheet of insurance groups but focus on non-traditional or non-insurance activities and on the possible interconnectedness with the financial system. In addition considering insurance business model specificities, policy makers must seek to combine according to the different possible policy tools e.g. recovery and resolution planning, systemic risk management plan, enhanced group-wide supervision in particular overseeing the possible development of NTNI, the sizing of HLAs, the appropriate combination of HLAs and liquidity constraints, etc. -

In the E.U. the recent adoption of Solvency II raises specific concerns.

- ⇒ The insufficient contribution of E.U. insurance groups involved in the implementation of the new regulatory framework
- ⇒ Inconsistencies between the European and the global framework in particular regarding the impact of risk diversification effects, diverging valuations approaches for long term guarantees, the role of internal models, etc.
- ⇒ Specificities at the global level of the regulatory approach for reinsurers subject in the E.U. to Solvency II

SPEAKERS OF THE SESSION

Chair

- **Gabriel Bernardino**
  Chairman, European Insurance and Occupational Pensions Authority

Introductory Remarks

- **Catherine Lezon**
  Deputy Secretary General, International Association of Insurance Supervisors
- **Axel P. Lehmann**
  Group Chief Risk Officer and Regional Chairman Europe, Zurich Insurance Group Ltd
- **Christian Thimann**
  Member of the Executive Committee, AXA Group

Public Authorities

- **Burkhard Balz**
  MEP, Vice-Coordinator of the EPP Group, Committee on Economic and Monetary Affairs, European Parliament
- **Felix Hufeld**
  Chief Executive Director,
  Federal Financial Supervisory Authority, Germany
- **Mario Nava**
  Director, Financial Institutions, DG Internal Market and Services, European Commission

Industry Representatives

- **Tobias Buecheler**
  Head of Supervision and Financial Market Regulation, Group Regulatory Affairs, Allianz SE
- **John C.R. Hele**
  Executive Vice President & Chief Financial Officer, MetLife
- **Nick Kitching**
  Head of European Regulatory Affairs, Swiss Re
- **Yann Le Pallec**
  Executive Managing Director, EMEA Ratings Services, Standard & Poor's

POINTS OF DISCUSSION

- What are the key challenges in defining a global prudential framework for insurance companies: e.g. regional specificities to be taken into account; possible piling up of national, regional and global regulatory frameworks; building confidence on internal models, etc.?
- What are the main priorities and timeframe of the regulatory process at the global level?
- How to appropriately define possible capital add-ons imposed on Global Systemically Important Insurers (G-SIIs)?
- What is the expected role of Recovery and Resolution Plans and Systemic Risk Management Plans to improve financial stability at the global level?
- What are the specificities of reinsurers to be taken into account in this global framework?

BACKGROUND OF THE SESSION

Significant evolutions are expected in the post-trading market with the implementation of the CSDR and T2S

A political agreement was reached on the Central Securities Depository Regulation (CSDR) at the end of 2013. The text is now scheduled to be considered in the plenary session of the Parliament mid-April 2014. The agreed regulation defines the role of the CSDs operating in the EU and provides harmonised settlement rules. A compromise was found for some contentious elements including the conditions under which banking services ancillary to settlement may be provided by a CSD and settlement discipline measures.

The CSDR level II standards and the delegated acts are due to be defined by the end of 2014 so that the regulation may be implemented in 2015. Challenging issues include the definition of appropriate settlement discipline standards and the timing of the implementation of these standards with respect to the schedule of TARGET2-Securities (T2S).

The adoption of unified settlement rules with the CSDR should facilitate the implementation of T2S programmed between June 2015 and February 2017. For T2S the current challenge is to maximize the volumes on the platform and to expand coverage of instruments / markets. The main issue for market participants in the short term is determining how they will connect to T2S either directly or indirectly, for which markets and at what pace.

The implementation of T2S is expected to transform the environment of CSDs and custodians. Competition is anticipated to increase between custodian banks on a cross-border and regional basis. There has also been discussion about the expansion of competition between CSDs and custodian banks. At this stage, one global custodian has launched a CSD. The main focus of regional / global custodians so far is on enhancing their T2S coverage and offering and on separating settlement services and asset servicing. Some CSDs are pursuing projects to diversify the services they provide in the custody area, in the perspective of the upcoming outsourcing of their settlement services to T2S.

The final outcome of these evolutions is difficult to anticipate. Despite the positive effects greater competition might provide, some observers are concerned that such changes may trigger more fragmentation among service providers in the short term and potentially blur the delineation between Financial Market Infrastructures (FMIs) and intermediaries and the scope of application of regulations. Others stress that the CSDR and T2S might not provide sufficient harmonization of rules. Asset servicing areas will continue to be highly fragmented on a national basis in particular. Several initiatives have however been launched to address the issues related to corporate actions. The need for a common framework for securities (the project of an EU Securities Law Legislation) in order to tackle notably conflicts of law is also often cited in this context, but there are no proposals officially tabled so far.

Defining an appropriate recovery and resolution (R&R) framework for FMIs is the main forthcoming challenge following the implementation of EMIR and the CSDR

CCPs will concentrate a large part of the risks related to derivatives transactions with the implementation of the clearing obligations of EMIR by the end of 2014. This will provide many benefits for the market, but also increase the risk of CCPs. EMIR which already requires many risk mitigation measures is therefore due to be completed by a R&R framework providing additional crisis prevention and management tools in order to address cases where the "ordinary" recovery tools required in EMIR have failed.

Following a consultation paper published in 2012 by the EU Commission (EC) on the R&R of non-banks and proposals made at the global level by CPSS-IOSCO, the EC is expected to publish a proposal for CCPs by the end of 2014. The EU Parliament also adopted a self-initiative report about the R&R of non-banks at the end of 2013.

Several questions remain to be solved regarding CCP R&R: (i) the objective of such a framework and the extent to which the continuity of services should be ensured; (ii) how to allocate losses between defaulting, non defaulting members and potentially their customers ; (iii) how to take into account the interdependence between a CCP and its clearing members many of which are likely to be GSIFIs; (iv) the appropriate toolbox for allocating losses and the way to address different asset classes / market segments within a CCP.

Other issues include: (i) the delineation between R&R procedures and ordinary risk management processes as well as between recovery and resolution phases, (ii) the organization and the role of the resolution authorities and (iii) the way to handle the R&R of a cross-border CCP.

Although CCPs are considered to be the priority, the EU R&R framework is expected to also cover (I)CSDs, possibly in a second stage, due to their critical role in the functioning of EU financial markets.

Such a framework should complement the CSDR provisions and take into account the specificities of CSDs and ICSDs. CSDs do not have default waterfalls at present, as they are currently not exposed to credit risk. Several R&R tools including cash calls, margin haircuts and loss allocation mechanisms, cited in the context of CCPs are thought not to be applicable to CSDs, as they may create incentives for CSD participants to become indirect. The specificities of (I)CSDs operating with a banking license and exposed to credit risk will also need to be further assessed. Such FMIs however stress that the banking activities they perform are limited in their scope, comprising mainly custody services and fully collateralized intra-day credit operations. Some observers however suggest that distinctions should be made in the R&R framework and possibly capital requirements between core CSD services and ancillary banking services.

The reporting of data on derivatives transactions to Trade Repositories (TRs) launched in February 2014 needs to be closely monitored

The mandatory reporting in the EU of all on and off-exchange derivative trades to a TR by all counterparties in a derivative contract, as well as by the CCP used, started on 12 February 2014. This reporting is meant to enable regulators to identify and analyse potential risks associated with derivative markets. Six TRs have so far been registered in the EU.

Several issues will need to be closely monitored. The fragmentation of TRs and the reconciliation and aggregation complexity this may lead to is the main issue stressed. The FSB is currently evaluating different models for aggregating such data. ESMA is also assessing ways to reconcile the data that will be reported in the EU by both counterparties involved in each trade. The on-going implementation of a system of Legal Entity Identifiers (LEI) should also help to identify the participants in trades. The magnitude of volumes that will be reported and the potential difficulty in keeping track of all the data has also been stressed. Other issues include the fact that rules have not yet been clearly defined for on-exchange products, the alignment of EMIR and MiFIR reportings and the differences between EMIR and Dodd Frank reporting requirements.

SPEAKERS OF THE SESSION

Chair

- **Patrick Pearson**
  Acting Director, Financial Markets, DG Internal Market and Services, European Commission

Introductory Remarks

- **Wim Hautekiet**
  Chief Executive Officer, BNY Mellon SA/NV
- **Jochen Metzger**
  Head of the Department Payments and Settlement Systems, Deutsche Bundesbank

Public Authorities

- **Andrew Gracie**
  Executive Director, Special Resolution Unit, Bank of England
- **Verena Ross**
  Executive Director, European Securities and Market Authority
- **Kay Swinburne**
  MEP for Wales, Rapporteur, Committee on Economic and Monetary Affairs, European Parliament

Industry Representatives

- **Thomas Book**
  Chief Executive Officer, Eurex Clearing
- **Eric Derobert**
  Group Head of Public Affairs, CACEIS
- **Juliette Kennel**
  Head of Market Infrastructures, SWIFT scrl
- **Carlos López Marqués**
  Deputy Director International Affairs, Bolsas y Mercados Españoles
- **Joël Mérère**
  Executive Director, Euroclear SA/NV
- **Vincent Remay**
  Adviser to the Chairman, Tradition

POINTS OF DISCUSSION

- How is the EU post-trading market expected to evolve with the implementation of the CSDR and T2S from 2015 (evolution of the business models of CSDs and custodians, access to T2S...)? Will the combination of CSDR and T2S provide sufficient efficiency and safety for post-trading domestic and cross-border operations or is an additional harmonization of rules and standardization of messaging and operational practices required? In what areas may additional harmonization be required and how can it be achieved? What added value may an EU securities law legislation have in this context?
- What are the main challenges in the definition of CSDR technical standards and delegated acts to be adopted later this year?
- What are the main issues to be clarified regarding proposals for a recovery and resolution (R&R) framework for CCPs? How to solve these issues?
- Should the recovery and resolution of (I)CSDs be covered at the same time as CCPs? Which specificities should be taken into account in an R&R framework covering CSDs and ICSDs?
- What is the outcome so far of the mandatory reporting to TRs launched in February 2014? What are the conditions and mechanisms required to reconcile and aggregate the data of multiple TRs effectively? How important is data standardisation to an effective outcome? What are the implications in the EU of the proposals made by the FSB for aggregating OTC derivatives data?

12:15 to 12:35

Terpsichore

Exchange of views: Perspectives on the financial reforms under way

Monday 31 March // Plenary session

Chair

- **Jacques de Larosière**
  President, EUROFI

Discussant

- **Xavier Musca**
  Deputy Chief Executive Officer, International Retail Banking, Asset Management & Insurance, Crédit Agricole S.A.

12:35 to 13:00

Terpsichore

Exchange of views: Challenges regarding the comprehensive assessment and stress testing of EU banks

Monday 31 March // Plenary session

Chair

- **Jacques de Larosière**
  President, EUROFI

Discussants

- **Andrea Enria**
  Chairperson, European Banking Authority
- **Danièle Nouy**
  Chair of the Supervisory Board, European Central Bank.

Calibration of banking prudential requirements and expected impacts on lending

Background of the session

Basel III is a comprehensive set of regulatory measures defined between 2011 (levels of capital) and 2013 (liquidity coverage ratio), which is aimed at strengthening the banking sector at global level in order to rebuild the confidence on the banking sector and reinforce its soundness so as to avoid the economic cost of banking crisis and in particular systemic ones. The rationale behind these improved regulations is that only well-capitalised and liquid banks can sufficiently finance the economy. These measures encompass notably:

New capital ratios including capital surcharges for global (and domestic) systemically important banks (G-SIBs; D-SIBs), i.e. in particular

⇒ A new definition of the common equity Tier 1 (CET1) and increased levels of capital;

⇒ New risk-weightings for securitisation, the trading book and counterparty credit risk;

⇒ A capital conservation buffer;

⇒ A non-risk based back-stop leverage ratio;

⇒ Two liquidity standards – the liquidity coverage ratio (LCR) and the Net Stable Funding Ratio (NSFR) -.

Additional revisions are underway regarding the trading book, large exposures, OTC derivatives margins, banking book interest rate risk management, etc.

Implementing the new banking regulations: are E.U. banks still a long way ahead?

As of the most recent EBA monitoring exercise (30 June 2013 figures) based on a sample of 174 E.U. banks, the capital shortfalls related to the minimum ratio and the total capital ratio, amount respectively to €103.3 billion (Tier 1 of 8,5%) and to €164.8 billion (total capital of 10.5%).

In fact if the situation of larger (Group 1) banks has improved (in June 2011 their CET1 shortfall was €225 Billion and is now €30 billion and total capital shortfall now at €150 billion coming from more than €450 billion), no progress has been achieved in average by smaller (Group 2) banks (around €25 billion shortfall of the CET 1 in 2011 and in 2013, and total capital shortfall coming from near €45 billion to near €40 billion).

However, despite the unprecedented effort to reinforce banks capital, the shortfall resulting from the leverage ratio (LR) for the banks of the sample is EUR 127.8 billion. And currently only 69.5% of the Group 1 banks and 76% of Group 2 banks comply with the 3% LR.

Regarding short-term liquidity constraints (LCR), 58.5% of Group 1 banks already meet the 100% LCR requirement, while only one bank is still below 60% (minimum LCR as of 2015). Among Group 2 banks 69.3% already reach an LCR of at least 100%, while 18.1% need to improve their liquidity positions to reach the minimum requirement set for 2015. The total LCR shortfall is EUR 262 billion (€217 billion correspond to Group 1 and €45 billion to Group 2), which represents 0.8% of total assets (EUR 31.7 trillion).

In this context, considering the efforts already achieved but also that E.U. banks are still a long way ahead of the level of resources they are expected to reach, it is wise to spend time describing the path taken by E.U. banks to improve their regulatory position e.g. deleveraging, reduction of certain activities or risks, right issues, concentration etc., as well as the possible impacts on the economy.

Another topic to be discussed is the timetable of the implementation of the reforms. Indeed some observers consider that these reforms constitute an endless addition of regulations, which impacts negatively notably equity holders and investors in general. Indeed they evolve in a lasting situation of regulatory uncertainty, which expose them to possible dilutions and unexpected reductions of earnings.

More generally the monitoring figures elaborated by the EBA, raise the issue of whether E.U. banks will succeed in due time, to comply with all the new requirements. In particular some question the feasibility of certain features of the new banking regulations. Regarding the NSFR in particular it is worth noting that in the Eurozone, financial institutions supply €19,550 billions of long-term financing on the basis of only €8,400 billion of long-term resources. In this context the additional long-term resources imposed by the projected NSFR have been estimated to €1,300 billion which are not absorbable by financial markets.

Domestic bank-landscapes and the wealth of the economies impact the outcomes of the new regulation in the E.U.

In addition it is worth analysing in different E.U. countries, the impact of the economic and banking context on the capacity of banks to shift toward the new regulatory constraints and achieve a sufficient focus on the financing of the economy. Some of these contexts are for example

⇒ The necessity for certain banks to simultaneously reinforce their regulatory capital and the quality of their assets badly impacted by the economic recession,

⇒ In highly competitive domestic markets the increase of the regulatory capital negatively impacts the profitability of the banks; consequently the banks face difficulties to sufficiently attract equity holders and may be incentivised to favour activities with higher risk/return ratios to the detriment of plain lending to the E.U. economy,

Eventually the combinations of those factors may be detrimental to the economic recovery, which requires increasing lending on the short term. According to recent data issued by the ECB, in the eurozone credit to non financial institutions is down by 3% on an annual basis but by 11,4% in Spain, by 5,6% in Italy etc. In addition the banking sector might miss the risk profile targeted by the regulators when shaping the new bank regulatory framework (e.g. reduction of market activities).

What is still remaining from a risk-based regulatory framework?

Calibrating a non-risk based leverage ratio as a backstop is challenging. Indeed, the appropriate level of a backstop for a leveraged bank holding high quality loans to the economy is undoubtedly significantly different than the level relevant for a bank with larger proportions of risky assets stemming from financial market activities. In particular defining a universal level for such a backstop may prove attempting the impossible as far as contrary to American banks E.U. ones do not off load their best loans out of their balance sheets.

The EBA monitoring document is instructive in that respect. It highlights that assuming that the banks already comply with the new capital requirements the shortfall of tier 1 capital corresponding to the non-risk based LR would amount to EUR 109.7 billion (minimum T1) and EUR 64.2 billion (minimum T1 plus CCB).

These figures mean that - though according to the EBA the ratios are expected to improve as a result of the changes to the LR recently proposed by the BCBS – currently the LR would become in many cases the binding constraint in terms of Core Tier 1 capital and the Total Regulatory Capital despite the LR – solely intended as regulatory back-stop - was expected not to detract the positive incentives specific to risk-based approaches.

Some may argue that the solution might be a recalibration factoring in the risk profile of most of Group 1 banks, which are actually not risky though leveraged. In the context where risk weighting processes and outcomes continue to attract scepticism among certain supervisors, financial analysts or investors, the solution might prove out of reach. Indeed so is the scepticism that many advocate that the priority for setting bank regulatory constraints should be given not only to defining minima to risk weighs but to favour simpler and non-risk based approaches.

Finally these figures raise the question of a possible drift from the initial regulatory objectives. Actually the balance between risk-based and non risk-based constraints, is falling over in favour of non-risk based ones. It is the so-called Basel IV.

SPEAKERS OF THE SESSION

Chair

- **Sylvie Goulard**
  MEP, Committee on Economic and Monetary Affairs, European Parliament

Introductory Remarks

- **William Coen**
  Deputy Secretary General, Basel Committee on Banking Supervision
- **Steve H. Hanke**
  Professor of Applied Economics, The Johns Hopkins University

Public Authorities

- **Adam Farkas**
  Executive Director, European Banking Authority
- **Mario Nava**
  Director, Financial Institutions, DG Internal Market and Services, European Commission

Industry Representatives

- **Martine Doyon**
  Head of Government Affairs EMEA, Goldman Sachs International
- **Nicolas Duhamel**
  Head of Public Affairs, Groupe BPCE
- **José Manuel González-Páramo**
  Member of the Board of Directors, Chief Officer, Banco Bilbao Vizcaya Argentaria
- **Ralf Leiber**
  Managing Director, Group Finance, Head of Group Capital Management, Deutsche Bank AG
- **Bjorn Erik Naess**
  Group Executive Vice President and Chief Financial Officer, DNB
- **Craig Parmelee**
  Managing Director, EMEA Financial Services Ratings Standard and Poor's

POINTS OF DISCUSSION

- What progress has already been made and what are the remaining anticipated efforts and difficulties faced by EU banks in implementing the new banking regulations?
- What are the observed effects of the banking reforms under way on EU banks (e.g. evolution of the portfolio of activities, deleveraging, etc.) in the context of domestic banking landscapes and economic conditions? What are the consequences for the financing of the economies?
- What are the possible proposals for better calibrating the ratios remaining to be defined (i.e. liquidity and leverage ratios...)? How to take into account EU financing specificities (e.g. availability of long term resources, specific risk profile of E.U. banks...)?
- What are the conditions to preserve the overall balance between risk-based and non-risk based features of the new global banking regulation?

BACKGROUND OF THE SESSION

Solvency II: entering on the implementation phase

The framework directive on "the taking-up and pursuit of the business of Insurance and Reinsurance" - Solvency II - was adopted in November 2009. It should be applicable from 1 January 2016. Additional legislative elements (Omnibus II) where required regarding the long-term insurance guarantees to address the challenges unveiled by the QIS 5 achieved in the economic and financial conditions specific to the financial and sovereign crisis.

As a principle based legislation to come into force the new framework now requires

⇒ The definition of the Implementing Measures (Level 2 by the Commission). The E.U. Commission will propose them after Omnibus II directive enters into force (the Commission, the Parliament and the Council reached an agreement in November 2013)

⇒ The definition of Implementing Technical Standards (Level 2.5 proposed by the EIOPA and adopted by the Commission)

⇒ The provision of Guidance to ensure consistent implementation and cooperation between member states (Level 3 - EIOPA)

In addition E.U. co-legislators delegated to the Commission the definition of certain "non-essential elements", which supplement the legislation (so-called delegated acts). Lastly the EIOPA has defined an interim solvency regime, which applies from 1 January 2014 until the 31 December 2015, consisting of specific guidelines targeting the reduction of the difficulties linked to periods of "dual running".

The challenge for this regulatory work, which encompasses a number of practical critical issues, is to remain consistent with level I legislation, given that it is undertaken at a moment when E.U. institutions are being renewed. This raises also certain challenges so as to avoid any delay in an already tight timetable until 2016.

Insurance companies are still cautious regarding the practical implementation of the long-term package

Several features of the trialogue agreement have still to be translated into practical terms. In that respect the insurance industry is worried in particular by the practicalities of the Volatility Adjuster and its consistency with the Level I decision.

In addition, this is a moment when Europe is seeking to switch from a bank intermediated financing of the economy toward an increased involvement of institutional investors among which are insurers; thus insurance companies are awaiting the concrete reweighting of the risk of certain assets (SMEs, Infrastructures, securitisation), which as currently set, are repelling for them.

The concrete implementation of the Pillar I and Pillar II of the new framework is challenging for both the industry and the supervisors

Beyond the debates triggered by the standard formula and long term guarantees, the implementation of the pillar I of Solvency II challenges in particular small and medium size companies. Indeed certain companies using the Solvency II standard formula may consider using Undertaking Specific Parameters (USP) for calculating their risk capital. Actually, the undertakings are allowed to replace market-average parameters of the standard formula by companies-specific ones so as to receive lower SCRs. Similarly a company can use USPs to better reflect re/insurance programmes in the standard formula. However the use of USPs is submitted to the regulators' approval on the basis of evidence of complete, accurate, and appropriate data.

In the same vein the internal models developed by E.U. insurance groups to assess their regulatory capital will have to be approved as well. In that respect the supervisors in the E.U. will be facing many challenges, among which is to make those internal models consistent at the European level, and another is to make them credible and robust in a context where their modelling reputation has been critically weakened in particular in the banking area to the extent that some investors and regulators are considering increasing the role of non risk-sensitive regulatory back-stops. The process adopted by the regulators at the national and E.U. levels, their affective coordination and the relevant resources they will succeed in mobilising will be essential in that respect.

Lastly the new regulatory framework for insurance undertakings also challenges the governance and the risk management (Pillar II) of the companies. Indeed insurance undertakings have to develop their Own Risk and Solvency Assessment (ORSA) at the heart of their risk management system. As a consequence of Solvency II, insurers are expected to progressively develop new kinds of long-term guarantees, and better price related options and guarantees.

Achieving the equivalence of regional solvency regimes in the global context

The equivalence of national and regional solvency regimes with Solvency II is an important consideration for a number of EU or non-EU groups.

Indeed the equivalence or not of local regimes may affect whether local business will have to restate local capital requirements according to Solvency II rules, and will consequently affect the pricing of certain products in related countries. It is also important for those insurance groups looking to adopt a branch structure notably to ease movement of capital around the group. The consequences of buying reinsurance from non-equivalent jurisdictions and how equivalence may affect business acquisition decisions are also relevant issues.

Bermuda, Switzerland and Japan are seeking permanent equivalence. A group of transitional countries, including Australia, Singapore, Hong Kong and South Africa, is seeking to be regarded as equivalent for a specified period. The US is yet to formally join this group. Its inclusion is clearly crucial to many insurers in the UK, given the size of the US market and its importance to their businesses. Discussions between EU and US regulators are continuing. The challenge is in particular how to secure agreement across all the different state jurisdictions within the US.

Improving the surveillance of insurers' practices in the current financial and economic context

No sovereign risk approach has been formally mentioned in the trialogue agreement.

However according to this agreement the Commission and the EIOPA will be given the power to adopt technical standards encompassing quantitative limits, asset eligibility criteria whenever the calculations techniques proposed by the new regulation to define the Standard Capital Ratio prove inadequate.

In this context in the recent Financial Stability Report the EIOPA has stated in particular some concern regarding undertakings exposed to sovereigns with long-lasting reduced yields, as well as concern regarding excessive concentrations of exposure of insurance undertakings to sovereigns and financials that risk spread reversals. The European Authority also mentioned certain "liquidity swaps" and "value in force monetisation" by which life companies may exchange future cash flows against present cash.

More generally the EIOPA stressed that a weak macroeconomic climate might threaten insurance companies.

Consequently the EIOPA is defining a dedicated analytical framework and may rapidly run a comprehensive stress test. Beside this, in order to perform its supervisory role more efficiently the EIOPA is expressing the need for the extension of its current power in order to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct. This power is not aimed to be confined to situations of potential threat to the stability of the financial system but would be used more generally to support independent assessments of supervisory practices.

SPEAKERS OF THE SESSION

Chair

- **Burkhard Balz**
  MEP, Vice-Coordinator of the EEP Group, Committee on Economic and Monetary Affairs, European Parliament

Public Authorities

- **Alberto Corinti**
  Member of the Board of Directors, Italian Insurance Supervisory Authority
- **Sandrine Lemery**
  First Deputy Secretary General, Autorité de Contrôle Prudentiel et de Résolution
- **Mario Nava**
  Director Financial Institutions, DG Internal Market and Services, European Commission
- **Carlos Montalvo Rebuelta**
  Executive Director, European Insurance and Occupational Pensions Authority

Introductory Remarks

- **Alban de Mailly Nesle**
  Chief Risk Officer, AXA Group

Industry Representatives

- **Tobias Buecheler**
  Head of Supervision and Financial Market Regulation, Group Regulatory Affairs, Allianz SE
- **Xavier Larnaudie-Eiffel**
  Deputy General Manager, CNP Assurances & Chief Executive Officer, CNP International
- **Alexandros Sarrigeorgiou**
  Chairman of the Board of Directors, Hellenic Association of Insurance Companies

POINTS OF DISCUSSION

- What are the issues raised by the implementation of the so-called Long Term Package?
- What should be the role of the EIOPA to avoid inconsistent implementations of the Solvency II framework across Member States? Is a single supervisory mechanism for the EU insurance sector suitable?
- Besides the implementation of the new risk-based regulatory framework what are the areas of scrutiny required to improve the soundness of the E.U. insurance sector?

Implementing the Banking Union, the SRM and the BRRD

Background of the session

The Creation of a banking union is essential to contributing to the re-integration of financial and banking markets and breaking the link between sovereigns and banks.

The crisis has made clear that the vulnerability of the financial and banking system is a key weakness of the European Union: capital circulates freely and rapidly from one country to another, which can amplify the potential fallout from "banking panics". Moreover, in a monetary union, the negative feedback loop between banks and sovereigns can in the extreme, undermine the viability of the monetary union. This is why effective supranational mechanisms in place for supervision, resolution and the guarantee of deposits are essential.

The banking union will ensure in particular that banks in the euro area are considered as « euro area banks » and not as « Irish », « German » or « Italian banks ». The goal is to ensure that credit conditions in the euro area will not depend on where you are but on who you are.

To achieve this, we need to have three things in place:

i. Federal bank supervision, to guarantee that all institutions are subject to the same rules and same methods of control. A supra-national supervisor is in fact better placed to assess the risks of cross-border activities and therefore to protect and encourage such activities; it is not subject to national biases that can lead to the temptation of economic introversion. It is therefore more credible and strengthens stability and confidence in the area;
ii. A unified mechanism for the resolution of banking crises, which should be backed by a credible and European public backstop, so that individual countries no longer have to shoulder the burden of major upheavals on their own;
iii. A unified deposit-guarantee mechanism to avoid banking panics.

Over the past year, these ideas have been translated into concrete action.

The move towards a Single Supervisory Mechanism is firmly on track.

By November 2014, the main banks in the euro area will be supervised by a federalized system headed in Frankfurt according to the same high standards. Moreover the entire European banking system will be supervised on the basis of a single set of principles – the Single Rule Book – which is in the process of being compiled by the European Banking Authority.

Ahead of taking on its new responsibilities, the ECB has undertaken a Comprehensive assessment of the euro area banking system focusing on 128 banks in 18 member states that constitute around 85 percent of euro bank assets. This Comprehensive Assessment aims to enhance the transparency of their balance sheets, and in doing so, to trigger balance sheet repair where necessary, as well as to strengthen confidence.

The agreement on a framework for Bank Recovery and Resolution, achieved on 20 December 2013, organizes the resolution in the EU.

This directive aimed at harmonising at the EU level national rules on bank recovery and resolution. The goal of bank resolution is to wind up the bank in an orderly way, keeping the essential functions intact and running.

The legislative framework establishes a range of instruments to tackle potential bank crises at three stages: preparatory and preventative, early intervention, and resolution. Member states will be required, as a general rule, to set up ex-ante resolution funds to ensure that additional financing are available if bail-in reaches its limits. Banks will have to draw up recovery plans, and update them annually, setting out the measures they would take to restore their financial position in the event of significant deterioration. Resolution authorities will have to prepare resolution plans for each bank, laying out the actions they might take if it were to meet the conditions for resolution.

<u>Bail-in instead of bail out becomes the rule</u>

Bail-in provisions will enable resolution authorities to write down or convert into equity the claims of the shareholders and creditors of banks that are failing or likely to fail. Certain types of liabilities will be permanently excluded from bail-in. A minimum level of losses equal to 8% of total liabilities including own funds will have to be imposed on an institution's shareholders and creditors before access can be granted to the resolution fund. Eligible deposits beyond €100.000 from natural persons and micro, small and medium-sized enterprises will have preference over the claims of ordinary unsecured, non-preferred creditors and depositors from large corporations. The deposit guarantee scheme, which will always step in for covered deposits (i.e. deposits below €100,000) will have a higher ranking than eligible deposits.

State aid becomes a remote possibility since it must be preceded by at least a contribution of private bail-in (8%) and resolution funds (up to 5% of total liabilities).

In extraordinary circumstances, where other resolution tools (including bail-in) are deemed to be insufficient to preserve financial stability, government support may be provided through injections of new capital or taking a bank into temporary ownership.

The specificities of the Single Resolution Mechanism Process

The Single Resolution Mechanism (SRM) is another pillar of the banking union, alongside the SSM. Ideally, the SRM should consist of a single system with two main elements: a single authority and a single fund backed by a European public backstop.

In December 2012, the European Council recognized that in the Banking Union, bank supervision and resolution needed to be exercised by the same level of authority. On 10 July 2013, the Commission proposed a Single Resolution Mechanism (SRM) for the Banking Union. On 20 March 2014, the Parliament and the Council reached a provisional agreement on the Single Resolution mechanism.

The key questions relating to the SRM which have proved difficult to resolve include:

- how the decision-making process for resolving a failing bank would work: the ECB in particular has argued that decisions would need to be made quickly (eg over a weekend); in addition the role of the Council raises the issue of a possible "politicization" of the resolution process;
- whether resources should be pooled to create a single euro-area backstop so that it could be used to provide additional public support to banks anywhere in the euro area, or whether national resolution funds should first be used to bail out national banks (the solidarity would remain "national" in that case), and the use of the pooled euro-area backstop should be subject to conditions which provide strict national budgetary safeguards: the Commission and the ECB have argued that, without a euro-area SRM, the euro-area SSM would be much less likely to be effective;
- whether a Single Resolution Fund of €55 billion would be large enough; if not, whether there would need to be a public further federal backstop, and if so who would provide it and how it would be funded: in particular, whether it would be temporarily funded by the European Stability Mechanism, which is funded by taxpayers and includes €60 billion potentially available directly to recapitalise banks, but has so far been used only to bail out governments.
- whether too much emphasis is being put on the recovery of ailing banks. Contrary to the US system which is more consistent with the "no more bail out" principle, the BRRD still allows, under exceptional circumstances and subject to state aid rules, pre -emptive bailing outs and exempts countries from the bailing in rules.

Further assessment is needed to clarify whether the agreement reached in trialogue on 20 March 2014 answers theses questions.

SPEAKERS OF THE SESSION

Chair

- **Elisa Ferreira**
  MEP, Committee on Economic and Monetary Affairs, European Parliament

Public Authorities

- **Stefano Cappiello**
  Head of Unit Registration, Recovery and Resolution, Regulation Department, European Banking Authority
- **Eleni Dendrinou-Louri**
  Deputy Governor, Bank of Greece
- **Luc Everaert**
  Assistant Director, Monetary and Capital Markets Department, International Monetary Fund
- **Gert Jan Koopman**
  Deputy Director General for State Aids, DG Competition, European Commission
- **Mario Nava**
  Director, Financial Institutions, DG Internal Market and Services, European Commission
- **Rolf Strauch**
  Member of the Management Board, Director of Economics and Policy Strategy, European Stability Mechanism

Introductory Remarks

- **Jérôme Brunel**
  Member of the Executive Board and Head of Public Affairs, Crédit Agricole S.A.
- **Danièle Nouy**
  Chair of the Supervisory Board, European Central Bank

Industry Representatives

- **Jesper Berg**
  Senior Vice President, Nykredit
- **Jordi Gual**
  Chief Economist, Group "la Caixa"
- **Alain Laurin**
  Associate Managing Director, Moody's Investors Service Limited
- **Roberto Nicastro**
  General Manager, UniCredit
- **Giles Williams**
  Partner, Financial Services, Regulatory Centre of Excellence, EMEA region, KPMG

POINTS OF DISCUSSION

SRM Mechanism

- What are the strengths and the weaknesses of the trilogue agreement reached on 20 March 2014?
- How to define the point of non-viability for a bank? Is it different according to whether the problem is one of liquidity or solvency? What are the respective roles and responsibilities of the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB) during this phase?
- Can the design of the mechanism related to the SRM allow the resolution of a cross border bank within a week -end's time? Is the decision making process not too complex?

Single Resolution Fund

- What are the inconsistencies between the rules defined by the BRRD to calculate the contribution of banks to national resolution funds and those projected for the SRF? Is there a way in which the defective definition on the basis for contributions can be corrected?
- How would the SRF interact with national DGS?
- Should the Single Resolution Fund have access to central bank liquidity facilities? When a failing bank is bailed-in (with some contribution from RF and/or DGS in extreme cases), under what conditions will the central banks play their role as 'lender of last resort' to a solvent bank in resolution?

Living will and single market:

- How to achieve cooperative solutions between home and host authorities to overcome a tendency towards a renatio-nalization of banking business due to the absence of a single living will? Will the SRB be able to effectively achieve group-wide resolution strategies and plans?

Bail- in tools and bank management

- What are the impacts of bail in tools on the cost of funding of banks in the short and the medium term?
- Is this impact different if the legal framework imposes specific bail-in instruments? What is the appetite of an investor for contractually bailinable instruments? Is senior debt affected by exclusions from the list of bail instruments?
- How to improve transparency on asset encumbrance to reassure the investors in bailinable instruments?

Recovery and resolution in the context of the ECB's comprehensive assessment

- What happens if capital shortfalls are identified in the coming months?
- In the absence of common backstop mechanisms and an effective implementation of the BRRD at present, what are the existing tools to face up to potential needs for capital arising from the asset quality review or the stress test? How different are the issues between AQR failure, and stress-test failure? What role can the ESM play if capital shortfalls are identified during the different phases of the ECB's comprehensive assessments? In which circumstances can the direct recapitalisation instrument of the ESM be used?
- What efforts do banks have to undertake themselves in order to meet the required capital levels? Are there sufficient bailinable instruments in the balance sheets of the banks at present? What prior contributions from private creditors will be required before public recapitalization can be used?
- In the context of the ECB's comprehensive assessment, how do the existing competition rules interact with the BRRD requirements?
- What lessons can be learned from the role of the US Federal government to address possible shortfalls following the stress test?

BACKGROUND OF THE SESSION

Retail investment funds are regulated in the EU at the product level (UCITS directive) and funds sold to professional investors at the management company level (AIFMD). These regulations cover many potential risks (such as leverage, liquidity and operational risks). Assessments of the risks posed by the "shadow banking" sector, however, showed that existing fund regulations do not directly address some systemic risks which may be amplified by factors such as the interconnectedness of funds within the financial system and their exposure to run risks. The risks identified concern in particular Money Market Funds (MMF) and securities financing transactions (SFT) such as securities lending and repos used notably by funds. These risks are currently being addressed by regulatory proposals made by the EU Commission (EC). Constant NAV MMFs (CNAV) are the main focus of the MMF proposals, while the SFT proposal aims to improve the reporting and transparency of such transactions.

Broader assessments of the systemic nature of asset management activities and entities have been conducted in the context of the work on the identification of non-bank non-insurer global systemically important financial institutions (NBNI G-SIFIs) by international (FSB and IOSCO) and US regulators (Office of Financial Research (OFR) of the US Treasury).

These reports attempt to identify the channels whereby investment funds may transmit risks across the financial system. Connections within the financial system created for example by counterparty or credit exposures and the disruptions to financial markets potentially caused by large liquidations of assets by a fund are the main channels pointed out.

In terms of scope, the FSB consultation clarifies the fact that systemic implications should primarily be assessed at the fund level, where exposures to the financial system are created, but asks whether the focus should be extended to families of funds with similar strategies or to asset managers together with the funds they manage. The OFR focuses more on asset management activities as the starting point for assessing vulnerabilities.

The factors that could potentially make investment funds risky have also been analyzed. Size is considered as a factor of risk in the US OFR report, which questions in particular the potential impact the failure of a major asset management entity may have on the financial system. The FSB proposes to use size as an initial filter (the threshold for investment funds would be set at $ 100 billion in net assets under management) to identify the funds on which to focus further analysis. Further potential risk indicators or filters put forward by these reports include interconnectedness, leverage and complexity, a potential lack of substitutability of certain funds, the cross-border dimension and redemption risks which may lead to first mover advantages. The OFR suggests that "reaching for yield" and herding behaviours are additional risk factors that need to be considered. Another issue the OFR report stresses concerns the gaps in the data on asset management activities (regarding e.g. "separate accounts" managed on behalf of large institutional investors or securities lending and repo transactions) that may impede effective macro-prudential analysis and the oversight of asset management firms and activities.

The EU Parliament Econ Committee recently acknowledged in a report on the recovery and resolution of non-bank institutions that the size and business model of asset managers "do not typically present systemic risk" and that significant safeguards already exist in the EU notably with asset custody rules. The Committee's report states that more work needs to be done on an international basis in this area based upon improved data collection and analysis and calls on the EU Commission to further assess the systemic risks associated with asset managers. Additional assessments are justified, the report stresses, by the growth of "much larger" asset management firms, many of whom are "exploring new business opportunities that could fundamentally change their business models and over time increase their systemic importance". An effective securities law regime is also pointed out as a way by which many of the issues involved in case of failure of a large cross-border asset manager could be mitigated.

A significant number of commentators, including think tanks, academics and policy makers, as well as industry participants have raised points of contention with the analysis of the possible link between asset management and systemic risk put forward in these regulatory initiatives and assessments, that will need to be taken into account in their future steps.

These commentators and asset managers firstly refute that systemic risk resides at the management company level, arguing that asset managers primarily act as agents. Unlike banks they are not direct participants in the financial markets, they do not act as lenders or counterparties and do not invest on their own account. Market and counterparty risks are borne by the investors in the fund and investment decisions are made at fund level meaning that where potential systemic risks may materialize is at that level.

In addition, they emphasize that risks are not correlated with the size of the assets under management, since larger asset managers tend to manage a more diverse range of funds and to have a more developed risk management function.

Secondly, industry players stress that many of the risks mentioned particularly in the OFR report, are already addressed in the EU by existing fund and derivative frameworks: UCITS and the AIFMD which together cover all funds distributed in the EU and EMIR covering derivatives exposures, due to be completed by legislative proposals regarding MMFs and SFT.

Moreover, some additional issues identified during the financial crisis are being addressed by EU regulators. This is the case for example of Exchange Traded Funds (ETFs) for which specific guidelines were proposed by ESMA in 2012. ETFs are usually structured as UCITS in the EU, but may raise interconnectedness issues with the banking sector which are not directly covered by UCITS rules. The difficulty of tracking asset ownership in the case of re-use and the interconnectedness such practices create are another concern of regulators for which the reporting and transparency rules recently proposed for SFT could be an answer.

Suggestions have also been made that the consistency of regulatory reportings across jurisdictions could be improved in the EU.

Finally, these commentators and industry players generally believe that specific plans for recovery and resolution are unnecessary in the case of asset managers. As assets are held in trust by a custodian (depositary) and segregated (unlike a bank where the depositor has a contractual claim against the bank), investors are assured to get their assets back in case of failure of the asset manager. These rules will be further tightened in the EU with the implementation of the UCITS V and AIFM directives. If an asset manager goes bankrupt the management of the fund where assets are invested can be moved to another management company demonstrating substitutability at the entity level, industry players claim.

Speakers of the session

Chair

- **Steven Maijoor**
  Chair, European Securities and Markets Authority

Introductory Remarks

- **Richard Berner**
  Director, Office for Financial Research,
  U.S. Department of Treasury
- **Paul Tucker**
  Senior Fellow, Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School and Harvard Business School

Public Authorities

- **Guillaume Eliet**
  Deputy General Secretary,
  Autorité des Marchés Financiers
- **David Geale**
  Head of Saving, Investments & Distribution, Policy,
  Financial Conduct Authority
- **Nicoletta Giusto**
  Senior Director, Head of the International Relations Office, Commisione Nazionale per le Società e la Borsa
- **Patrick Pearson**
  Acting Director, Financial Markets, DG Market and Services, European Commission
- **Tajinder Singh**
  Deputy Secretary General, International Organization of Securities Commissions
- **Kay Swinburne**
  MEP for Wales, Rapporteur, Committee on Economic and Monetary Affairs, European Parliament

Industry Representatives

- **Frédéric Bompaire**
  Head of Public Affairs, Amundi
- **Greg Brisk**
  Global Head of Risk and Compliance, Investment Management, BNY Mellon
- **Sophie Gautié**
  Head of Strategy, Corporate Development
  and Public Affairs, BNP Paribas Securities Services
- **Barbara Novick**
  Vice Chairman, BlackRock
- **Guido Stroemer**
  Managing Director, Global Head of Repo, UBS AG

Points of discussion

Assessment of systemic risks

- What is the best approach to addressing systemic risk issues associated with asset management?
- Which indicators are the most relevant for assessing the possible systemic implications of investment funds (e.g. size, interconnectedness, leverage, cross-border dimension, complexity…)?
- Are risks correlated with size (i.e. assets under management or NAV)?
- At which level should asset management risks be mitigated (i.e. fund, family of funds, activities conducted by the fund, management company…)?
- Are the concerns around segregated accounts justified? Do specific risks reside in separate accounts?

Expected impact of current EU regulations and possible additional needs

- To what extent do existing EU frameworks (i.e. UCITS, AIFMD) and on-going proposals (MMF regulation) enable to appropriately mitigate potential systemic risks in the asset management sector?
- Are there areas where additional reform is needed to mitigate risks arising from the asset management industry? What are the priorities to be addressed (e.g. securities financing transactions, tracking of the ownership of assets…)?
- What is the likelihood of asset management failure? Under what circumstances would an asset management firm go out of business? Is there a need for a recovery and resolution framework in the asset management sector?

Reporting and transparency

- What are the expected impacts for the asset management sector of the recent proposals of the EU Commission on the reporting and transparency of securities financing transactions?
- Is the data available at present sufficient to assess systemic risks in the asset management sector?
- Are differences in reporting requirements across jurisdictions a major issue?

BACKGROUND OF THE SESSION

Various political initiatives underway to address the financing challenges face by long-term projects in the E.U.

Enhancing E.U competitiveness in the global context requires that governments and businesses of various sizes access long-term financing. In the context of the financial crisis and the subsequent adjustment of banks' regulations, which affects the ability of the banking sector in Europe, the challenge for E.U. Commission is to find out whether Europe's historical dependence on bank intermediation will give way to a more diversified system with higher shares of capital market financing. An additional challenge is to better channel the savings to the projects. In addition policy makers must ensure that recovering E.U. economies will not be heading credit crunch and will find the necessary financings when needed. This has triggered various political initiatives.

The E.U. Commission's Green Paper on the long-term financing of the European economy, stated that improving the financing of infrastructure projects raises a wide range of issues: the role of public development banks and institutional investors, the impact of bank and insurance regulations and accounting standards, the extent to which European bonds markets could provide funding to infrastructure projects, the requisites for enabling long term savings and the conditions to match both savers and projects sponsors expectations, etc.

In June 2013, the Commission proposed the creation of new investment funds (European Long-Term Investment Funds – ELTIF) for varied investors who want to put money into companies and projects for the long-term.

In May 2013 the Economic and Financial Committee (EFC) set up a High Level Expert Group (HLEG) to further analyse the issues raised. It published a report on December 2013 putting together short and medium term suggestions to develop complementary market tools:

- Certain areas for progress are related to **national procurement processes** in the E.U. e.g. the openness to non bank financing, generalised "value for money analysis" to better compare delivery options, facilitate Public Private Partnership (PPP) and diversify the forms of financings, the definition of a standardised documentation for the PPPs across the E.U., improved project planning, etc. The Expert group insisted also on the necessity to stabilise national regulations to reduce the regulatory risk, which frightens investors.
- Other suggestions concern **harmonising and improving bankruptcy regimes** in diverse areas e.g. out of court settlement arrangements; transparency of national regimes, tenor of the procedures, the consistency across the E.U. of the ranking of claims and claw back periods.
- Various possible initiatives are listed to **improve access for investors to information on infrastructure projects** e.g. E.U minimum data requirements on the previous 10 to 15 years, a pan European data-warehouse tracking the performance of infrastructure projects and providing real-time information on projects planning and procurement phases. A definition of risk assessment standards for infrastructure projects and the improvement of the transparency of risk rating approaches are also suggested.
- The HLEG suggested also pass-porting infrastructure assets by lifting up regulatory, tax and legislative barriers to cross border investment
- National and EU authorities are also invited to reform development banks to enable cross border cooperating.

It is time to clarify the targeted financing architecture for the E.U.

Yet the challenge is still to identify at the E.U. level which elements are key to facilitate the involvement of investors through market finance solutions.

In the E.U. it is essential to fight against those national specificities, which trigger unaffordable operational costs, increase the perceived riskiness of infrastructure assets and constitute a dramatic drawback for investors to looking at the E.U. as a single market.

In addition, E.U. policy makers must spot out the **catalysts for an effective take off of both bond and securitisation markets for infrastructure projects,** which are affectively attractive for E.U. and international investors e.g. the existence of liquid secondary markets, the possible liquidity back-stops, the availability of foreign exchange risk hedging-tools, the minimum rating required to make those securities compelling to E.U. and international investors, etc.

In each case public E.U. authorities must clarify the **need for and the form of a public intervention.** In the U.S. the development of the securitisation market has been supported by the GSEs, which are instrumental to ensure the liquidity of the secondary market (Cf. Session 1 of the Athens Eurofi Seminar, and the Eurofi paper "Reviving securitisation in the EU to support SME financing"). Europe must explicitly define its own financial market architecture, clarifying the role of banks and markets, positioning the public entities if required, and anticipating the related costs of the financing.

The **success factors related to the ELTIF** should also be better understood. In that respect E.U. authorities should clarify the relevant behaviours of E.U. households (limited risk appetite, high liquidity expectations, etc. which have been reinforced by the shape of existing financial products,) and the possible solutions (Infrastructure bonds and securities benefiting from liquid markets, etc.), which are likely favour the development of the ELTIF.

The Basel Committee for Banking Supervisors as well as the EIOPA, have started a certain **recalibration of some capital charges**, which are critical to better financing infrastructure assets. The fact that the prudential evolutions underway fit to infrastructure projects risk specificities must be carefully checked. According to the insurance industry the capital charges recently adjusted by the EIOPA remain essentially dissuasive. Similarly, the IASB standards expected to take into account business models specificities and avoid short-term bias, are overdue.

Demonstrating that an E.U. infrastructure financial market is likely and that the objectives are ambitious

Lastly the political initiative dedicated to long-term financing must avoid leaving the impression that it is piecemeal. In that respect the **communication of convincing objectives and working streams** is essential e.g. the targeted size of bond and securitisation market, the mechanisms to off load banks' balance sheets in order to possibly preserve their role in certain financings (e.g. green field financing), liquidity arrangements for those markets, the targeted role of public authorities, national and EU initiatives for collecting data, procurement practices, legal frameworks, etc.

In addition E.U. public authorities need to choose which initiatives are critical in order to focus its political impetus.

Such political communication should help to **demonstrate that an E.U. infrastructure financial market is likely, that the objectives are ambitious and proportionate to E.U. needs and that the process is closely monitored.** A specific action plan of the E.U. council is probably required in this perspective.

Last but not least E.U. policy makers have to address the current and unprecedented deleveraging trend witnessed in the E.U., which is also threatening the financings for infrastructure projects which expected to improve E.U. competitiveness in a context where market finance solution will take time to be effective.

SPEAKERS OF THE SESSION

Chair

- **Konstantinos Botopoulos**
  Chairman, Hellenic Capital Market Commission

Introductory Remarks

- **Wolf Klinz**
  MEP, Committee on Economic and Monetary Affairs, European Parliament
- **Gerassimos Thomas**
  Director Finance, DG Economic and Financial Affairs, European Commission

Public Authorities

- **Gabriel Bernardino**
  Chair, European Insurance and Occupational Pensions Authority
- **Thomas Groh**
  Deputy Assistant Secretary, Insurance Division, Directorate General of the French Treasury, Ministry of Economy and Finance, France
- **Eric Perée**
  Associate Director, Institutional Strategy, European Investment Bank

Industry Representatives

- **Guido Fürer**
  Group Chief Investment Officer, Swiss Re
- **Ricardo Gómez Barredo**
  Global Head of Group Accounting & Info Management, Banco Bilbao Vizcaya Argentaria
- **Christos Gortsos**
  Secretary General, Hellenic Bank Association
- **Odile Renaud-Basso**
  Deputy Chief Executive Officer, Caisse des Dépôts
- **Eduardo Reviglio**
  Chief Economist, Cassa Depositi e Prestiti Group
- **Massimo Greco**
  Managing Director, Head of European Funds, J.P. Morgan Asset Management

POINTS OF DISCUSSION

- What are the key outcomes of the consultation on the Green paper of the EU Commission and of the High Level Expert Group launched by the Economic and Financial Committee?
- What should be the role of wholesale financial markets in this area? What are the key success factors of an effective take off in the E.U. of both bond and securitisation markets for infrastructure projects?
- What lessons can be drawn from the recent initiatives in the E.U. (e.g. Bank/insurer partnerships, infrastructure funds launched by asset managers, project bond initiative, long term investment fund (ELTIF)?
- What should be the priorities for the new Commission in order to encourage long-term investment of insurance companies, households, etc. in the E.U.? What could be the role of the public sector to match the liquidity needs of households and long-term investment needs?
- What would be the main features of an E.U. action plan for improving the financing of long-term projects in the long run? What are the priorities to address possible credit crunches in the E.U.?

Exchange of views: Economic trends (macro and business) in an evolving economic and monetary union

Background of the session

Banks play a major role in financing the EU economy notably for SMEs and households. Many banks, in particular in certain E.U. member States, need to repair their balance sheets following the financial turmoil, the economic down turn and the sovereign crisis. Consequently they have restricted their lending capacity.

In addition the cost of bank credit is increasing and the maturity of loans decreasing with the Basel prudential requirements. The insufficient profitability of many E.U. banks is also reducing their access to market financing sources needed to increase their capital. In fact we can observe that even some of the soundest European banks have to reduce both their lending and their customer basis due to the difficulty of raising sufficient capital and the difficulty of increasing margins in the current economic context. Another issue is the high level of leverage and production costs of SMEs in many countries, which hinders their profitability and viability.

This results in a huge deleveraging process especially in the south of Europe, shown by the latest statistics on credit to non-financial institutions. According to the ECB, loans to non financial corporations have been on a negative trend since 2012: the annual growth rate to non-financial corporations has been -2,3 % in 2012 and -3% for 2013.

Repairing banks' balance sheets is a must but improving banks' profitability and attractiveness for investors will take time. Yet resuming growth quickly will only be possible if lending is stepped up. Larger companies and mid-caps, which have access to capital markets have anticipated this evolution by diversifying their financing resources, but this is not the case of SMEs, which are very reliant on bank financing due the lack of data and the proximity relationship needed to assess their risks. The same is true for households.

Banks, insurance companies, asset managers have already launched various initiatives to develop market-based financing mechanisms to complement bank lending, but such initiatives will take time and their outcome depends in part on the legal and technical improvements needed to implement the necessary financial eco-system.

Developing mechanisms to alleviate banks' balance sheets in order to rapidly free up the capital required to improve their lending capacities, has been proposed by many market observers. Securitisation tools seem attractive in that respect. For example the transfer of SME loans, conforming with common sound pre defined criteria, from banks to financial vehicles issuing high quality securities, could be a solution to improve rapidly banks lending capacities.

Building an E.U. securitisation market requires conditions to be met: the prudential framework should not discourage investors; loans need to be adequately priced; bundled securitised loans should be simple, homogenous, transparent and of high quality. In addition, achieving an effective launch of a sustainable, large and deep EU securitization market requires sufficient product and process standardisation at the EU level (e.g. through market or regulatory standards). Providing sufficient liquidity is also necessary, which supposes the intervention of market makers and as a last resort of central banks.

A specific political initiative seems however necessary to grant the public support required to successfully launching such mechanisms intended to alleviate banks. The contribution of EU or National Central Banks might be considered in this respect in particular to provide some form of liquidity for the market. In parallel specific actions to improve the profitability and the financial soundness of SMEs seems a prerequisite in many EU countries.

Speakers of the session

Chair

- **Jacques de Larosière**
  President, EUROFI

Speakers

- **Peter Praet**
  Member of the Executive Board, European Central Bank
- **Andris Vilks**
  Minister of Finance, Latvia
- **Ignazio Visco**
  Governor, Banca d'Italia
- **Kostas Pantazopoulos**
  Global Head of Interest Rate Products, Goldman Sachs International

Points of discussion

- What is the extent of the financing needed in the EU to re-launch growth and what issues does the decreasing rate of satisfied loan applications in some E.U. countries raise?
- Is the E.U. financial sector able to answer these needs? What is the expected impact on the achievement of this objective of tightened bank regulations, the banking union, and monetary policies and tools currently used by the ECB?
- Will the EU banking sector as a whole, be able to raise sufficient capital in the short term to answer the financing needs which are not satisfied? How to address the specific issues of certain countries (e.g. periphery countries) or of banks unable to raise sufficient additional capital in a short timeframe either because of their lack of profitability or of the extent of their bad assets?
- What are the prospects of the current public initiatives to support bank financing (e.g. encouragement to develop securitization, greater support of public development banks to SME financing, reviewed ECB eligibility criteria qualifying SME loans as central bank collateral, loan guarantee mechanisms supported by public banks, etc.) and of restructuring efforts within banks?
- What evolutions are required in the Basel framework to enable banks to invest in securitized products?
- Are additional policy tools needed to fill possible financing gaps e.g. securitisation programmes targeted to improve banks' balance sheets, direct outright purchases of certain loans or financings to the economy, etc.?

19:30 to 19:45

Terpsichore

Impressions of the day

Jacques de Larosière

Monday 31 March // Plenary session

20:45 to 22:30

Terpsichore

Gala Dinner

Achieving an effective economic and monetary union

Keynote Speech

- **Yannis Stournaras**
  Minister of Finance, Hellenic Republic

SAVE THE DATE

Next Eurofi event
organized in association with
the forthcoming Italian EU Presidency

The Eurofi Financial Forum 2014

10-11 & 12 September

Milan, Italy

- Forum organized in association with the forthcoming Italian Presidency on the eve of the first informal Ecofin meeting of the new legislature
- Main theme: Key priorities of the new EU Commission and Parliament in the area of financial regulation

08:00 to 08:30 Terpsichore	KEYNOTE SPEECHES AND EXCHANGE OF VIEWS TUESDAY 1 APRIL // PLENARY SESSION

Chair

- **Jacques de Larosière**
  President, EUROFI

Discussants

- **Christian Noyer**
  Governor, Banque de France
- **Rimantas Šadžius**
  Minister of Finance, Republic of Lithuania

BACKGROUND OF THE SESSION

Since July 2007, the world has faced, and continues to face, the most serious and disruptive financial, economic and social crisis since 1929. The very existence of the Euro was under threat between the spring of 2010 and the summer of 2012, due to the repercussions of a crisis that originated in the United States, but also and above all due to the fiscal imbalances and the insufficient competitiveness of several Member States and the links between banks and their sovereign.

Much has been achieved during the last four years to prevent future crises.

In 2010, there were no arrangements in place to deal with Member States losing market access. This absence created major uncertainty in markets about the way forward.

With the European Supervisory Mechanism (ESM) and the two-pack, a permanent funding instrument and a governance framework have both been created. This has been a major step forward and will ensure that in the future, the euro area is better prepared to respond to such crises.

Europe has also been working on implementing the G20 agenda, the aim of which is to ensure that all financial activities and players are well regulated and effectively supervised in order to prevent the development of systemic risks. During the four past years, the EU Commission has indeed proposed 28 legislative texts (including CRDIV, Mifid 2 / MiFIR, EMIR, AIFMD, Solvency 2…) in that respect.

The new EU supervisory authorities were also set up following the de Larosière report and played a key role in addressing the consequences of the crisis and ensuring a consistent transposition of directives and regulations across the EU. The introduction of simple majority (or, in some cases, qualified) voting rules providing the European Authorities with the means to make decisions, is also a significant step forward.

The Banking Union which is probably the biggest project since the euro itself and which the EU Institutions are close to finalizing is another major improvement. The Banking Union has the potential to significantly contribute to the re-integration of financial markets in Europe and is fully consistent with the objectives of the Single Market It will also ensure that investors and no more taxpayers will assume the burden of paying for failing or risking to fail banks.

After years spent developing common rules for the EU financial services sector the monetary union is now badly fragmented following the sovereign debt crisis.

After 10 years of economic deviations, the sovereign debt crisis hit the Eurozone in 2009-2010. It has abolished years of efforts since the introduction of the Euro to further integrate EU financial markets. This crisis has indeed created a deep fragmentation across the Eurozone financial markets. In a monetary union there should indeed be one single set of interest rates in all parts of the Union, but this is no more the case since 2010.

Besides the lasting spreads on sovereign securities between the periphery countries and other Eurozone countries such as Germany and France, non performing loans are increasing in the periphery which deters banks from lending and periphery banks have heavily invested in domestic sovereign bonds. Moreover EU banks have diminished their cross-border activities. In addition, national authorities have sought to protect their domestic economies and national taxpayers by ring-fencing banks' capital and liquidity positions to protect them hindering the activity of cross border banks and the freedom of capital movements.

In parallel the integration of retail markets is at a standstill. Yet building a more unified EU financial market is the only way for Europe to achieve the scale needed for providing appropriate financing conditions and products to its enterprises, citizens and states.

The next five years ahead – towards completing the Single Market and the Union

Euro area citizens are still suffering from the inevitable adjustment process following years of accumulated imbalances. Unemployment remains unacceptably high. The years to come are therefore about creating a more perfect Union that caters to these objectives.

The time has come for Europe to define a fresh conception of its financial services markets. It is absolutely essential to re-launch an integration of the internal market and together to invest in projects for the future. Europe must also equip itself with the means of remain a key player on the international scene.

The achievement of an integrated European market would indeed stimulate innovation, intensify competition in banking services, widen consumer choice and reduce the costs of intermediation, which are all needed to improve the performance of EU financial services and its contribution to the economy. Such an evolution will offer economic players improved financing and investment conditions, boost capital productivity and ensure a better allocation of assets, thereby fostering a proper match between savings and investment.

This means in particular: developing a new financing model for the EU economy and particularly SMEs and long term projects, including an EU private placement market and an appropriate ecosystem for EU midcap equity markets. Moreover achieving an effective single market requires a more consumer-friendly financial system and a strengthened EU retail payments market. Defining a common recovery and resolution framework for Financial Market Infrastructures and improving the efficiency of post trading arrangements, reviewing the IORP directive in order to face up to pension needs are other key priorities in that respect. In addition, reinforcing Europe's financial and accounting sovereignty is urgently needed in order to take into account the specificities of EU financing mechanisms in the definition of global rules and their impacts on the EU economy. Improving governance within the EU financial sector is also necessary: regulation is not a substitute for good governance.

Furthermore, Member States need to keep their promises to correct imbalances and to reform the structure of their economies. Debt burdens remain high in many countries and the deleveraging process continues to impede growth. Fiscal policies have to be brought effectively in line with the provisions of the Stability and Growth Pact and of the Fiscal Compact. This concerns all Member States, not just those who looked at some point into the abyss of losing market access. This concerns also the European institutions, which have to ensure that common rules are thoroughly and evenly applied. This is the only way for Europe to reduce gaps in its internal competitiveness.

Delivering on past commitments also means keeping the promise made by Heads of States or Governments in June 2012 to complete the Banking Union. It means a swift transposition of agreed directives into national law and a stringent application of the adopted regulatory framework. It also means that a Single Resolution Mechanism, which is a strong second pillar of the Banking Union, needs to be agreed before the end of this legislature.

Creating a more efficient Union also requires filling the remaining gaps in the architecture of the Economic and Monetary Union, which should remain the long term objective of the EU as outlined in the Four Presidents Report in 2012.

SPEAKERS OF THE SESSION

Chair

- **Jacques de Larosière**
  President, EUROFI

Public Authorities

- **Sylvie Goulard**
  MEP, Committee on Economic and Monetary Affairs, European Parliament
- **Wolf Klinz**
  MEP, Committee on Economic and Monetary Affairs, European Parliament

Expert

- **Guillaume Prache**
  Managing Director of Better Finance for All, The European Federation of Financial Services Users

Industry Representatives

- **Giovanni Angelini**
  Senior Vice President & General Manager for the European Union, Western Union
- **Lothar Blatt von Raczeck**
  Head of EU Representation, Deutscher Sparkassen- und Giroverband
- **Etienne Boris**
  Senior Partner, PwC
- **Séverin Cabannes**
  Deputy Chief Executive Officer, Société Générale
- **Hans-Ole Jochumsen**
  President, NASDAQ OMX Nordic & Executive Vice President, Transaction Services Nordics, NASDAQ OMX
- **Xavier Larnaudie-Eiffel**
  Deputy General Manager, CNP Assurances & Chief Executive Officer, CNP International
- **Michel Madelain**
  President & Chief Operating Officer, Moody's Investors Service
- **Barbara Novick**
  Vice Chairman, BlackRock

POINTS OF DISCUSSION

- What are the main challenges and priorities of the forthcoming EU Commission in the area of financial regulation?
- What are the main issues to be addressed by the forthcoming Commission in the banking area?
- How should bank intermediation and market based financing evolve to re-launch growth and what role can EU policy play in this area? What contribution is expected from securitization and what role can the Commission play in relaunching such mechanisms on a sound basis?
- What are the main issues to be addressed by the forthcoming Commission in the securities market area?
- Should the revision of the IORP Directive be a priority for the forthcoming EU Commission? How to achieve a level playing field between life insurance and pension funds?
- What role does investor protection play in the financing of the EU economy? What additional measures may be required and what should be the priorities of the forthcoming EU Commission in that respect?
- How should the regulatory regime for retail electronic payments evolve in the context of rapid technological innovation?
- How to ensure that European positions are well taken into account in global policy making processes?
- How can governance complement appropriately financial regulation?

BACKGROUND OF THE SESSION

Banks are by far the main source of external financing for non-financial companies in the EU, covering 50 to 90% of their needs, depending on their size.

The share of bank financing tends to be higher for SMEs (EU enterprises with a turnover ≤ € 50 million) and smaller midcaps for which publicly available information and visibility about their projects and management capabilities is limited. In the absence of a legal definition at EU level, midcaps are referred to in this paper as a proxy for the "middle market" which comprises enterprises with a turnover ranging from € 50 million to around € 1 billion.

In the US, commercial banks and savings institutions are also the leading source of credit for small businesses (defined mostly as companies with no more than 500 employees). Direct market-intermediated financing plays a larger role than in the EU but is only a limited part of the overall US small business financing. The difference however with the EU is that market mechanisms supporting bank financing are generally much more developed in the US. The Government Sponsored Enterprises (GSEs) indeed purchase a significant proportion of credits originated by retail banks (mortgages, consumer credit, auto loans...), thus freeing up capital to support lending by banks both to their retail and small business clients.

The cost of bank credit is expected to increase and the availability of long term loans reduce with the implementation of Basel III capital and liquidity rules.

Such evolutions could impact significantly the financing of EU SMEs and midcaps given their strong reliance on bank financing.

Statistics published by the ECB in its survey on the access to finance of SMEs in the euro area indicate signs of credit rationing for SMEs in some EU countries. This issue which first emerged in periphery countries could touch other EU states to a certain extent. The proportion of bank loans facing obstacles reported by the ECB survey (rejections, partial coverage or loans refused by the borrower because of a high price) was for example respectively 29% and 48% in France and Italy during the second semester of 2013. Such figures can be explained by a combination of demand and supply factors, but some observers believe that this could be a prelude to a decrease of credit supply in certain EU countries.

Enterprises based in countries with poor sovereign ratings are moreover penalised by the negative impact of such ratings on their financing conditions. Initiatives such as the ECB sovereign bond purchase programme (OMT facility) and the Banking Union should help to reduce the fragmentation of financing conditions across EU member states. Moreover the EIB is working on the development of a common methodology for the credit scoring of SMEs and midcaps in order to foster the provision of more objective information on their intrinsic risks.

Many measures have been taken and proposed by the EU public institutions since the beginning of the crisis to facilitate the financing of EU SMEs and midcaps.

The EIB has stepped up its financial support in favour of SMEs (funding and guarantees). The EU Commission (EC) has developed regulatory frameworks for venture capital funds and European Long Term Investment Funds (ELTIF) and a specific label for growth SME markets in MiFID II, as well as consulted on the prospects of crowdfunding. Private placement regimes are also being extended on a domestic basis. Furthermore, capital requirements more favourable to SME loans have been introduced in CRD IV and the Eurosystem has reduced haircuts on SME ABSs posted as collateral for its regular monetary policy operations, taking into account the introduction by the ECB of a loan level data transparency initiative.

Addtional proposals have been made by a high level expert group chaired by A. Giovannini and J. Moran regarding notably the access to appropriate corporate and credit data on SMEs, the cross-border investment of funds in SME loans and the setting up of an EU platform for mini-bonds.

Moreover a self-initiative report of the EU Parliament drafted by W. Klinz stresses the role national and multilateral (EIB) development banks can play in supporting SME financing, as well as the possible contribution of vehicles such as ELTIF and transparent securitisation mechanisms. The EC is also called upon to propose an EU framework for channelling the short-term liquidity of private households into long term investments, which could provide additional retirement solutions.

The priorities to be pursued in the short and medium term, respectively for SMEs and midcaps, however still need to be completely established.

Priorities should take into account the potential impacts and the implementation timing of the different actions proposed, as well as possible emergencies to be addressed in certain countries or industrial sectors. There should also be an overall perspective on the financing needs of SME / midcap issuers and investors in order to achieve a consistent approach of the regulation of the different instruments available.

Suggestions have been made in this regard by the industry. Concerning SMEs, the expansion of the support provided by public banks, the revitalisation of SME securitisation and developing an improved access to reliable information in order to facilitate credit provision by alternative providers are the main actions favoured. As for midcaps, which have less difficulty in accessing market-intermediated funding, the development of a European private placement regime, the expansion of EU high yield bond markets and efforts to improve the consistency of EU bond legislations are put forward, as well as actions to encourage equity financing and promote IPOs (e.g. rebuilding an appropriate ecosystem, better balancing incentives for bond and equity financing, adapting rules for SME and midcap issuers).

An idea that has gained traction in the past months for SMEs is revitalising loan securitisation in order to refinance SME loans and alleviate SME financing constraints for banks. The ECB notably has called for the development of high quality plain vanilla products capable of being rated and priced in a simple way. Several actions have been initiated by the private and public sectors but these have only had a limited impact so far (the PCS Prime Collateralized Securities initiative and proposals made by the EIB and the EC to set up instruments involving the use of EIB and structural funds).

Relaunching EU securitisation markets on a sound basis seems feasible but requires overcoming several obstacles in the short term, such as the sharp increases in capital requirements for securitisation exposures mandated in Basel III and Solvency II, the current low interest rates and margins of bank loans and the absence of standardised and easily accessible information on SME loans.

Given the urgent need to step up lending in the EU, solutions involving the intervention of public institutions such as the ECB and / or national central banks (in order to impose appropriate quality standards based on the current criteria used for accepting SME loans as eligible collateral in central bank refinancing, support the emergence of securitisation conduits and purchase eligible loans temporarily, if needed, to foster the launching of the market) and the EIB (in order to offer some guarantees for the securities issued) are proposed to help revitalise the EU securitisation market in a relatively short timeframe.

SPEAKERS OF THE SESSION

Chair

- **Gerassimos Thomas**
  Director Finance, DG Economic and Financial Affairs, European Commission

Public Authorities

- **Wolf Klinz**
  MEP, Committee on Economic and Monetary Affairs, European Parliament
- **John Moran**
  Secretary General, Department of Finance, Ireland
- **Isabelle Vaillant**
  Director, Regulation Department, European Banking Authority

Expert

- **Jean-Jacques Bonnaud**
  Independent Director, Board Member, EUROFI

Introductory Remarks

- **Juan R. Inciarte**
  Executive Board Member, Banco Santander
- **Elke König**
  President, Federal Financial Supervisory Authority, Germany

Industry Representatives

- **Guido Bichisao**
  Director Institutional Strategy Department, European Investment Bank
- **Magnus Billing**
  Senior Vice President, President, NASDAQ OMX Stockholm and Head of Nordic Fixed Income and Baltic Markets, Nasdaq OMX Stockholm
- **Laurent Clamagirand**
  Investment Chief Officer, AXA Group
- **Socrates Lazaridis**
  Chief Executive Officer, Hellenic Exchanges Group
- **Jean Naslin**
  Head of European and International Public Affairs, Groupe BPCE

POINTS OF DISCUSSION

SMEs:

- What is the extent of the potential uncovered financing needs of SMEs? What are the financing tools to be privileged for SMEs? Are there major differences across EU countries, sectors or types of SMEs in the approach required?
- What are the main financing mechanisms complementary to banks accessible by SMEs (e.g. crowdfunding, venture capital, mini-bonds, direct lending by funds / institutional investors, supply chain financing...)? What share of SME financing may such mechanisms cover in the short and medium term? Are some improvements needed in their legislative framework to facilitate their development? To what extent can direct lending by non-banks be encouraged on a domestic and cross-border basis by improved transparency and easier access to data?
- How to support bank lending to SMEs? What are the prospects of SME loan securitization and how to overcome possible barriers to its development (e.g. availability of data, lack of standardisation, profitability of loans, perception of riskiness and complexity...)? Could public action at the EU level (involving the ECB, EIB) help to revive such mechanisms on a sound basis?
- How can the EIB and domestic public banks best support the financing of EU SMEs (e.g. supporting direct lending, credit enhancement...)?

Midcaps:

- What could be a reasonable target for market-based financing of larger SMEs and midcaps (possibly depending on their size, stage of development, financing needs...)?
- How to initiate a movement towards more market-based financing for mid-sized companies? Are existing vehicles appropriate for channeling investments into such companies (e.g. UCITS, ELTIF, VC fund...)? Would an EU definition of mid-sized companies help and how to move forward?
- How to stimulate equity financing and IPOs (e.g. how to provide the appropriate investment ecosystem, the right incentives) and what can be done at EU vs domestic level? What can be expected from MiFID II growth markets and from a better calibration of requirements for SME and midcap issuers? What additional EU level policy tools and incentives may help to stimulate bond financing (e.g. EU private placement regime, improving the consistency of bond issuance regimes...)? Is loan securitization a solution for mid-sized company loans and on what conditions?
- How can the EIB and domestic public banks best support the financing of EU midcaps?

Addressing the risks and mobilisation challenges of expanding collateral use and reuse

Background of the session

Collateral mobilization is due to become an increasing challenge, but many solutions are being put in place by the private and public sectors.

Increasing demand for collateral combined with constraints on its supply could lead to greater scarcity in Europe.

The use of collateral has strongly risen in the EU since the financial crisis with risk aversion and concerns over counterparty and sovereign risks. The demand for high quality assets (HQA) is expected to increase further in the coming years with the forthcoming implementation of regulatory measures derived from the G20 commitments (Basel III, OTC derivatives requirements) and the on-going LTRO operations of the ECB.

Limitations being put on the re-use of collateral notably in EMIR and UCITS V and stricter asset segregation rules may further reduce its availability. The legislative proposals recently made by the EU Commission (EC) to improve the reporting and transparency of securities financing transactions (SFT) should however help to mitigate some of the risks associated with rehypothecation in particular.

Another issue pointed out by many industry players is the multiplicity of collateral rules in different EU regulations (e.g. EMIR, UCITS V...) which in some cases differ or possibly contradict each other and the insufficient consistency of terminology regarding e.g. rehypothecation and reuse.

The main issue to be addressed is the allocation of collateral across multiple asset pools and providing access to appropriate collateral.

The threat of a collateral crunch previously mentioned as a possible result of these evolutions has been dismissed by global and EU regulators. The situation may however vary across jurisdictions and the fragmentation of collateral across multiple asset pools with collateral often managed in silos remains a significant issue.

Specific concern is also raised by buy-side players who do not always have the ability to raise the cash collateral required or who might be impacted by additional requirements imposed e.g. on repo transactions.

Solutions are being put in place by the private and public sectors to optimize the use of the existing collateral supply.

Actions have been taken within the Eurosystem since 2008 to relax eligibility criteria and to extend eligible collateral in bank refinancing operations. Other measures put in place by the ECB will facilitate the cross-border use of collateral, such as the suppression of repatriation requirements as of May 2014, the integration within the Eurosystem's collateral framework of cross-border triparty collateral management services and the widening of the collateral framework to accept marketable assets denominated in foreign currencies. The implementation of TARGET2-Securities (T2S) by 2015-16 will also facilitate the delivery against payment in central bank money of collateral transactions within the EU on a domestic and cross-border basis. Moreover the Single Supervisory Mechanism (SSM) should further facilitate the cross-border integration of EU securities markets.

Several private sector solutions also contribute to avoiding a shortage in collateral assets. These include services such as tri-party collateral management, entity-level and market-level collateral optimization and collateral transformation. Partnerships are also being developed by EU market infrastructures with providers outside the EU in order to facilitate a more efficient mobilization of collateral at the global level. Concerns have however been raised by some regulators regarding the risks that an excessive use of collateral lending or transformation services may create. The legislative proposals recently made by the EU Commission (EC) to improve the reporting and transparency of securities financing transactions (SFT) including securities lending should help to mitigate such risks by providing supervisors with the information necessary to facilitate the monitoring of SFT and to develop appropriate policy tools if needed.

Additional solutions are envisaged both by the private and the public sectors to increase the stock and liquidity of available collateral.

One of the solutions envisaged in Europe for increasing the supply of collateral is to develop the pool of securitized credit claims. Measures have been taken by the Eurosystem to alleviate the costs of using credit claims as collateral. Initiatives are also being conducted in certain jurisdictions to go towards such an objective for example with the refinancing vehicle set up in France issuing bonds guaranteed by credit claims.

CCP practices are another area where evolutions could be envisaged. Possible actions include cross-margining (i.e. the sharing of pledged collateral across different cleared assets) and expanding the range of eligible collateral. But these changes will probably remain limited given the need to preserve market integrity and investor protection and the current fragmentation of the EU market.

Further standardizing collateral requirements across the EU within given usage classes (e.g. collateral used in the context of CCPs or for a given currency...) has also been proposed in order to promote liquidity within the relevant asset markets. Sufficient diversification of collateral should however be preserved at the overall level.

The increasing use of collateral has important implications for the functioning and structure of the financial system that are currently being assessed.

The BIS and the ESRB have raised concerns about the possible impacts that an increasing recourse to collateral may have on the functioning and stability of the overall financial system and about the current lack of transparency on the extent of collateralization.

Increased collateralization raises asset encumbrance which may have negative effects if it becomes excessive e.g. increasing the risks of unsecured creditors and augmenting liquidity risks for banks.

Higher use of collateral may also favour pro-cyclicality. During economic downturns the effects of the economic cycle on bank leverage and credit supply can be amplified when the share of collateralized financial transactions is greater.

Actions are under way in the EU to improve the data available for monitoring asset encumbrance and collateral positions.

In the context of the implementation of the CRR the EBA is currently developing reporting templates that should be implemented in all banks by the end of 2014. Such data should in particular help creditors to assess the actual risks they face and improve the pricing of funding as well as facilitate institution-level and macro-prudential supervision.

In addition, repositories collecting data on securities lending and repo transactions mandated in the EC proposal regarding SFT should enable supervisors to better evaluate and monitor such exposures

Putting backstops on asset encumbrance or on covered bond issuance has also been considered. The LCR however already involves a buffer of unencumbered assets to be held as insurance against liquidity shocks.

SPEAKERS OF THE SESSION

Chair

- **Marc Truchet**
  Senior Fellow, EUROFI

Introductory Remarks

- **Verena Ross**
  Executive Director,
  European Securities and Markets Authority
- **Emerico Antonio Zautzik**
  Head of Directorate General for Market and Payments Systems, Banca d'Italia

Public Authorities

- **Adam Farkas**
  Executive Director, European Banking Authority
- **Patrick Pearson**
  Acting Director, Financial Markets, Directorate Internal Market and Services, European Commission
- **Fiona Van Echelpoel**
  Head of CCBM & Collateral Section,
  European Central Bank
- **Kay Swinburne**
  MEP, Coordinator, Committee on Economic and Monetary Affairs, European Parliament

Industry Representatives

- **Staffan Ahlner**
  Managing Director, Global Collateral Services, BNY Mellon
- **Stefan M. Gavell**
  Executive Vice President, Global Head Regulatory,
  Industry and Government Affairs,
  State Street Corporation
- **John Rivett**
  Managing Director, J.P. Morgan Agency Clearing,
  Collateral Management & Execution
- **Jo Van de Velde**
  Head of Product Management, Euroclear SA/NV

POINTS OF DISCUSSION

Collateral mobilization challenges and solutions:

- Can one expect a greater scarcity and fragmentation of good quality collateral in the coming years according to the latest estimates? What are the consequences of such issues for different types of players in the EU i.e. buy-side, sell side, end-investors, FMIs…?
- Are the current solutions being put in place by the private and public sectors to optimize the mobilisation of collateral sufficient to ensure an appropriate allocation of collateral and face up to scarcity risks? What impacts are expected from the actions that will be put in place by the Eurosystem in 2014 (suppression of repatriation requirements, integration of cross-border collateral tri-party management in the collateral framework)? What additional benefits can be expected from T2S and the SSM regarding the effective use of collateral?
- To what extent may the recent proposals to improve the reporting and transparency of securities financing transactions (SFT) help to mitigate the risks associated with some practices used to optimise collateral management (e.g. collateral transformation, rehypothecation…)? Do these proposals raise any issues?
- Should actions be pursued in parallel to increase the supply and liquidity of collateral (e.g. securitisation of credit claims, broadening of eligible assets used in CCPs, cross-margining, standardisation of collateral requirements within given usage classes…)? Which ones seem the most promising?

Impact of capital market and banking regulations on the effective use of collateral:

- Do some regulatory requirements create impediments to the effective use of collateral? Is there a need to improve the consistency and compatibility of rules relating to collateral in the different EU legislations? What are the consequences of these obstacles and the priorities to be addressed? Should these issues be tackled separately or in the context of a horizontal legal framework covering notably the use and transmission of collateral?
- Do some elements of the Basel III framework have repercussions on collateral management? What issues may need to be solved?
- What effects on collateral mobilisation are expected from the FTT proposal if it applies to securities lending transactions? Can such impacts be limited?

Impact of the increasing use of collateral and level of asset encumbrance on the financial system:

- What is the extent of the potential risks created by over-reliance on secured funding and excessive asset encumbrance and the possible impacts on the functioning and stability of the financial system?
- What benefits can be expected from the proposals made to better monitor asset encumbrance and collateral positions? Are additional actions required?

Cross-border implementation and global consistency of OTC derivatives and bank requirements

Background of the session

Strengthening financial regulation is a key objective of the G20 commitments agreed in 2009.

Cross-border implementation and global consistency of OTC derivatives requirements

Much progress has been made in the definition of OTC derivatives rules, but their implementation is taking longer than expected and differences in timing have appeared across the main jurisdictions.

The definition and implementation of requirements for transactions to be reported to Trade Repositories (TRs) is moving ahead rapidly in most G20 countries, but progress with central clearing requirements is slower and is still quite limited for trading requirements. The EU rule-making process is almost completed while the implementation of the rules is still work-in-progress. The US is somewhat ahead with swap trading, clearing and reporting obligations having been put in place by the CFTC in 2013. However the process is less advanced for SEC regulated swaps. Most Asian jurisdictions are further behind schedule due to specific domestic priorities.

Legislative progress is also being made in the area of margins for non-centrally cleared derivatives for which globally agreed standards were published in September 2013, although their implementation is not expected to begin until the end of 2015 in most jurisdictions.

Although the OTC derivatives rules defined have significant commonalities, there are many differences across jurisdictions in their detailed requirements.

Many differences remain between the EU and the US requirements regarding in particular the product scope (including exchange-traded and OTC derivatives in the EU), exemptions applied to non-financial corporations, reporting obligations and minimum risk management standards that apply to CCPs. Such discrepancies may create complexity both for direct participants and for the buy-side and potentially lead to liquidity fragmentation.

In the absence of an authority with the power to coordinate policy-making and enforce policies consistently at global level, which some market observers are calling for, developing international cooperation mechanisms among jurisdictions is essential to facilitate the cross-border implementation of these rules.

Major steps forward are being made in the OTC derivatives area, following the declarations made at the G20 Saint Petersburg summit "that jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulations and enforcement regimes, based on essentially identical outcomes". However, how any international agreement on margin requirements for exchange-traded derivatives will be reached remains to be clarified.

The US CFTC and EU Commission (EC) first published a joint understanding of cross-border issues in July 2013, followed by a multilateral set of understandings announced in August by the OTC derivatives regulators group consisting of regulators from jurisdictions with large OTC derivatives markets. Further proposals are expected from the IOSCO task force on cross-border regulation set up in September 2013.

Furthermore a proposal was made by the EU Commission in January 2014 to establish within the EU-US Transatlantic Trade and Investment Partnership (TTIP) process a framework for regulatory cooperation in financial services.

While generally supporting such approaches to facilitate the cross-border implementation of rules in the OTC derivatives area, many industry players and observers stress that their impact will depend on the finer details of how "substituted compliance" (in the US) and "equivalence assessments" (in the EU) referred to e.g. in the CFTC / EC agreement will be designed and how the high-level principles proposed in these declarations will work in practice. Another issue to be overcome according to some regulators are the potential differences in the degree of supervision and enforcement of rules.

Regarding the practical implementation of these principles, progress has recently been made in the trading area where an agreement was reached in February 2014 between US and EU regulators to exempt from US trading rules European-approved platforms that trade derivatives, until equivalent EU rules come into force in around 2 to 3 years' time. Questions however remain regarding the way equivalence assessments should be conducted in practice. Some observers believe that there should be a certain degree of flexibility in such decisions in order to avoid a "zero-one" system by which a foreign jurisdiction is considered to be either equivalent or not equivalent with limited discretion. There have also been discussions regarding the criteria to be used in such assessments and the degree of proportionality that may be allowed.

Cross-border implementation and global consistency of banking requirements

At the end of 2013, 25 out of the 27 main jurisdictions in the world had Basel III rules in place. Although the implementation of Basel III banking prudential requirements is phased-in as far as 2019, their implementation has been anticipated by the market in many cases creating major impacts for the profitability and activities of many EU banks in particular.

Differences have appeared in the rules applying to the banking sector.

Differences have emerged in the implementation of Basel III designed as minimum requirements e.g. related to the leverage ratio or to exemptions contained in CRD IV. There are also concerns in Europe regarding the US Fed's proposal to require foreign banks, previously exempted from US capital requirements when owned by a well-capitalized foreign bank, to create a local bank holding company subject to US prudential requirements. The justifications put forward by the US authorities include the increasing size of foreign banks' US operations, their interconnectedness with the US financial system and the possible risks associated with large intra-group funding costs.

Moreover the differences across banking structure reforms already implemented and proposed e.g. by the EU Commission are also stressed.

Differences in the level of bank intermediation and accounting rules across jurisdictions mean that the outcomes of Basel III requirements might differ quite significantly.

The impact of Basel III prudential requirements is expected to be quite different between the EU and Asia where bank-intermediation is dominant for retail and SME financing and the US where market-based mechanisms are much more developed, and where a significant proportion of the retail credits originated by banks are transferred to the Government Sponsored Enterprises (GSEs) which are not subject to Basel III requirements.

The unintended consequences resulting from inconsistencies in recovery and resolution plans (RRP) are also stressed.

Sufficiently integrated and consistent RRPs need to be in place for global financial groups in order to avoid local restrictions or lock-ups in case of stress, which may threaten the viability of such groups or frustrate the resolution actions of the home authority. Differences between the EU Bank Recovery and Resolution Directive (BRRD) and the US measures are stressed regarding in particular the scope for bail-in and loss absorbency requirements, with differences in the level of recapitalisation required in different jurisdictions.

SPEAKERS OF THE SESSION

Chair

- **Elke König**
  President, Federal Financial Supervisory Authority, Germany

Introductory Remarks

- **Marc Chambers**
  Member of the Secretariat, Financial Stability Board
- **Steven Maijoor**
  Chair, European Securities and Markets Authority

Public Authorities

- **Patrick Pearson**
  Acting Director, Financial Market Directorate, Internal Market and Services, European Commission
- **Michael Pedroni**
  Mission of the United States of America, U.S. Treasury Representative for Europe
- **Tajinder Singh**
  Deputy Secretary General, International Organization of Securities Commissions

Industry Representatives

- **Séverin Cabannes**
  Deputy Chief Executive Officer, Société Générale
- **Andrew W. Douglas**
  Managing Director of Government Relations for Europe and Asia, The Depository Trust and Clearing Corporation
- **John Hughes**
  EMEA Head of Regulatory Reform, Bank of America Merrill Lynch
- **Faryar Shirzad**
  Global Co-Head, Office of Government Affairs, Goldman, Sachs & Co
- **Andrew Simmonds**
  Group Head of International Balance Sheet Management & Group Projects, Standard Chartered Bank

POINTS OF DISCUSSION

Cross-border implementation and global consistency of OTC derivatives requirements

- What practical improvements can be expected from the on-going efforts to enhance cross-border regulatory cooperation between the EU and the US and among the main OTC derivatives regulators? What issues remain to be clarified / solved?
- What is the outcome so far of substituted compliance / equivalence approaches? What are the main success factors of such approaches? What criteria should be used when evaluating the equivalence of rules between jurisdictions? What degree of flexibility and proportionality may be acceptable? Is there sufficient consistency of supervision and enforcement approaches across the main jurisdictions involved in OTC derivatives?
- What improvements can be expected from the proposals made by the FSB for aggregating OTC derivatives data reported to TRs? Are the current discrepancies in the reporting requirements to TRs an obstacle to aggregation?
- Is improving cross-border bilateral regulatory and supervisory cooperation sufficient or should a movement towards greater coordination of policy-making and enforcement at the global level be initiated? What could be the first steps towards such an objective?

Cross-border implementation and global consistency of banking requirements

- What are the implications for global financial institutions of differing banking rules across regions? What is the rationale behind these discrepancies? How may they be addressed? Could improved supervisory cooperation help to solve some issues?
- May common banking prudential standards have unintended consequences when the structure of the financial systems and the levels of bank / market-intermediation differ significantly across jurisdictions (e.g. between the EU, Asia and the US)? How may such issues be addressed? How to ensure equivalent outcomes of banking standards?
- What are the issues to be addressed in priority regarding the recovery and resolution of cross-border banks? What are the impacts of differing recovery and resolution rules? What solutions can be proposed? Is the level of cooperation between supervisors sufficient at the global level?
- What actions are required for better monitoring the global financial system: availability of data, view of the shadow banking sector...?

13:00 to 13:15 Terpsichore	**Closing remarks** Tuesday 1 April // Plenary session

Discussants

- **Jacques de Larosière**
  President, EUROFI
- **Michel Barnier**
  Member of the European Commission responsible for Internal Market and Services

Tuesday – 13:00

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