AAE Insurance Committee Copenhagen

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European agenda – some remarks

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CAPITAL MARKETS UNION

Mid-Term Review June 2017

- European **start-up and scale-up firms** need more risk finance to invest in innovation and growth. There is a need to develop and strengthen new forms of emerging risk capital alongside bank credit.
- The size of EU **public equity and debt markets** lags behind other developed economies, especially in some Member States. Accessing public markets is costly and complex, especially for small and mid-cap companies.
- The necessary efforts made by EU banks in the aftermath of the financial crisis to reduce excessive exposures to risk and leverage have contributed to a **contraction in new loans to EU businesses**. Capital markets can offer powerful solutions to help banks manage their balance sheets more efficiently, and fund their lending to businesses and households.

…continued

- There is not enough investment by insurance companies and pension funds in **risk capital, equity and infrastructure**. More private capital must be mobilised to fund sustainable investment, the transition to a low-carbon economy and investment to meet important social needs.
- Engagement by **retail investors** with capital markets remains low. EU households are amongst the highest savers in the world, but the bulk of these savings are held in bank accounts with short maturities. More investment into capital market can help meet the challenges posed by population ageing and low interest rates. This, however, will not happen unless retail investors have access to attractive investment propositions on competitive and transparent terms.
- Many long-standing and deep-rooted obstacles stand in the way of EU **cross-border investment**, undermining the efficiency of the EU economy. Barriers deter investors from diversifying their portfolios geographically, reduce market liquidity, and make it harder for companies to scale up.

CMU achievements

- Over the past 18 months, in accordance with the original timetable, the Commission has **delivered more than half the measures** (20 out of 33) announced in the CMU Action Plan.
- A particular effort has been made to increase the sources of risk finance as firms gradually scale up, and make these more widely available across the EU.

Now three legislative proposals

- **1. A legislative proposal on a Pan-European Personal Pension Product (PEPP) by end June 2017.** This will lay the foundations for a safer, more cost-efficient and transparent market in affordable and voluntary personal pension savings that can be managed on a pan-European scale. It will help meet the needs of people wishing to enhance the adequacy of their retirement savings, address the demographical challenge, complement the existing pension products and schemes, and support the cost-efficiency of personal pensions by offering good opportunities for long-term investment of personal pensions;

…Continued…

- **2. A legislative proposal specifying conflict of laws rules for third party effects of transactions in securities and claims in Q4 2017.** Differences in the national treatment of third-party effects of assignment of debt claims complicate the use of these instruments as cross-border collateral and make it difficult for investors to price the risk of debt investments. By removing the uncertainty about the applicable law which gives rise to costs and risk, this proposal will promote cross-border transactions. It will draw on the work of a specially mandated expert group and the results of the on-going public consultation7. The proposal will provide clarity on which law applies to the third party effects in cases of transactions in securities and in claims;

…Continued

- **3. A legislative proposal for an EU-framework for covered bonds in Q1 2018**. This will aim to create a more integrated covered bond market in the EU, without undermining the quality of existing covered bonds**.** Covered bond markets are an important channel for the long-term financing of the real economy; In parallel, the Commission will explore the possibility of developing European Secured Notes as an instrument for SME loans and infrastructure loans.

Additionally

- **Amendments** to the **Delegated Regulation supplementing Solvency II** in **2018** to review the prudential treatment of private equity and privately placed debt, where prudentially justified, from a risk-based supervisory perspective;
- **Recommendation on private placements** (*building on the experience of well-functioning national regimes*).8 Markets for private placement of debt can broaden the availability of finance for unlisted medium-sized companies. The recommendation will be informed by the results of a study, to be published in **Q4 2017**;

…Additionally…

- **Communication on a roadmap for removing barriers to post-trade market infrastructure** (*building on the recommendations of the EPTF – the European Post Trade Forum*) – in **Q4 2017**. Post-trade market infrastructure plays a vital role in securities markets, ensuring the orderly transfer of ownership, payment and exercise of rights flowing from securities.9 On average, cross-border trades are still substantially more expensive than domestic trades. An efficient post-trading environment can reduce such costs. On the basis of the EPTF report, the Commission services will soon launch a public consultation to collect stakeholders' views on where they see the need for further improvements in the post-trade area, to achieve better integration;

… Additionally

- **Communication on corporate bond markets** (*building on the recommendations of the Expert Group on Corporate Bond Market Liquidity*) – in **Q4 2017**. Corporate bond markets are an important funding channel for larger companies. The Commission is reviewing how these markets function, with a focus on how secondary market liquidity can be improved;
- **Code of Conduct** to simplify **withholding tax procedures, with a focus on refunds** – by **end 2017**. The Commission is working with national tax experts to share best practice and agree on a code. This will be a practical step towards more efficient operational solutions for recovering withholding taxes.

Commission adopts the ESAs package (20 September 2017)

STRONGER SUPERVISION OF FINANCIAL MARKETS

In a Nutshell

WHY ARE CHANGES NEEDED?

- More seamless supervision promotes more integrated financial markets in the Capital Markets Union
- ESAs' mandates need to deliver uniform application of EU rules across the EU
- Decision-making in ESAs and ESRB needs to ensure best outcomes for EU as a whole
- The EU should develop and integrate capital markets further in the context of the UK's exit
- Cross-border risks between EU and rest of the world have to be addressed effectively
- ESAs need adequate funding for their increasing tasks

WHAT ARE THE MAIN CHANGES PROPOSED?

Better coordination of supervision across the EU

More efficient decision-making with clear EU focus

Enhancing the means for effective supervision

First steps towards a single capital markets supervisor

ESAs to be funded not only by taxpayers but also by industry

ESAs to promote work on FinTech and sustainable finance

A more effective European Systemic Risk Board

MEANWHILE IN BANKING

Background

- On 23 November 2016 the European Commission presented the «Risk reduction package»
- The package covers proposals for amendments in:
  - CRD IV
  - CRR
  - BRRD
  - SRMR
- EBF, ECBC and ESBG have carried out extensive work in order to assess the proposals and suggest changes

Core elements – CRD V / CRR II

- **Leverage ratio:** minimum requirement 3%
- **NSFR:** minimum requirement 100% / some changes to the calculations
- **New Basel standard for counterparty credit risk (SA-CCR), incl. simplifications based upon proportionality**
- **New Basel standard for counterparty credit risk (FRTB), incl. simplifications based upon proportionality**
- **New Basel standards for equity investments in funds and exposures on central counterparties**
- **TLAC for European G-SIBs**
- **SME supporting factor:** continuation and extension
- **Infrastructure investments:** 25% reduction in the capital requirement
- **Interest rate risk in the banking book (IRRBB)**
- **Principles for Pillar 2 and MDA**
- **Pillar 3:** simplifications based upon proportionality
- **IFRS9:** transitional rules
- **Large exposures:** limits based upon T1 capital only
- **Remunerations:** simplifications based upon proportionality

An extensive package – nearly 500 pages of new regulation to the banking sector

actuarial association of europe

CRR II
(Capital Reguirements Regulation)

- TLAC (Total Loss Absorbency Capacity)
- Bindinhg leverage ratio
- Reformed methodology to assess then market risk of the trading book
- Binding NSFR (Net stable Funding Ratio)
- Renewed regulation for the treatment of large exposures
- Use of the Proportionality principle
- Risk weights of SME loans relieved

CRD V
(Capital Reguirements Directive)

- Financial holding company structures
- Treatment of the EU parents of third country banks
- Renewal of Pillar 2 regulation
- Renewal of interest risk regulation
- Renewal of remuneration regulation

BRRD II
(Bank Recovery and Resolution Directive)

- Definition of the crisis management group and unit
- Calibration of the MREL (minimum requirement for own funds and eligible liabilities) requirement
- Internal MREL requirement
- Regulation for supervisory cooperation
- Application of bail-in for instruments emitted under third country legislation
- Moratorium powers

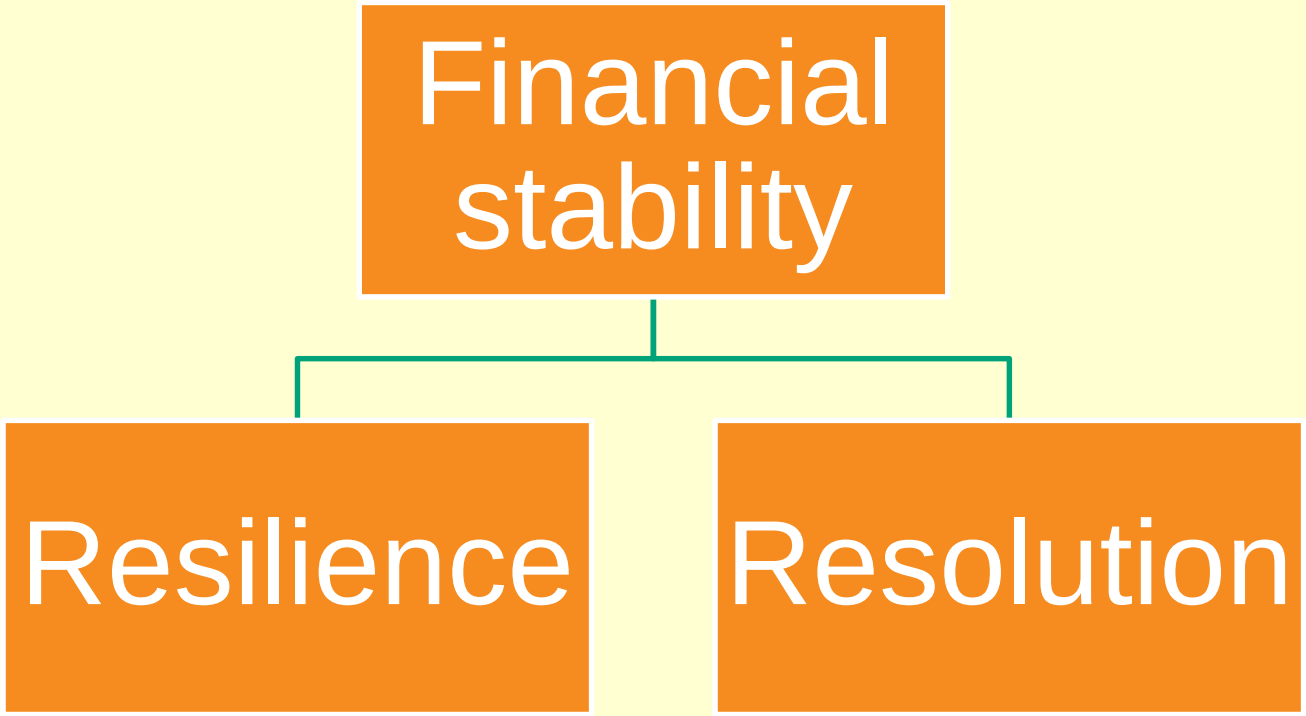
SRMR II
(Single Resolution Mechanism Regulation)

- To a large extent similar changes as those done for BRRD

Velkojien etusija-järjestys
(BRRD II)

- The priority ranking of holders of bank senior unsecured debt

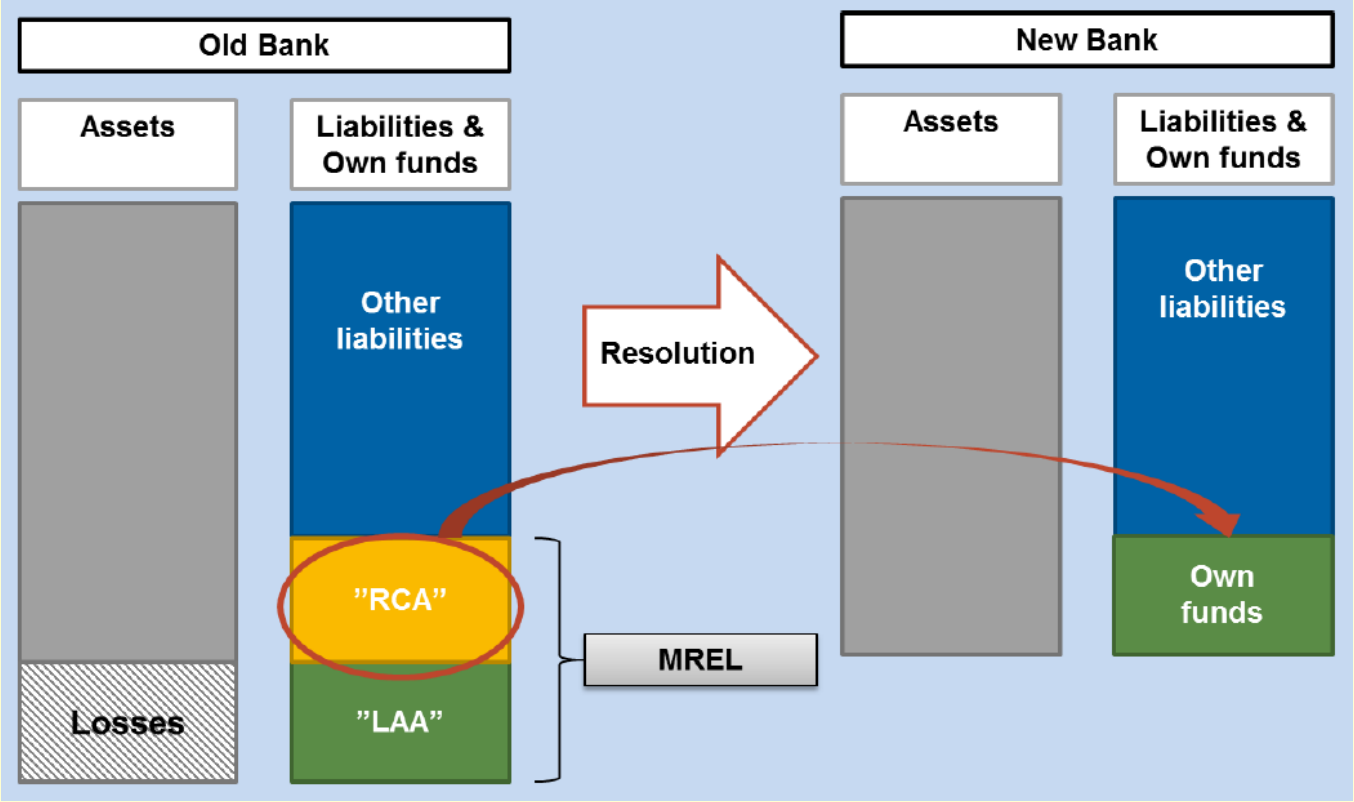
Framework for financial stability



MREL – purpose and function

RCA = Recapitalisation amount

LAA = Loss absorption amount



Source: *Swedish National Debt Office (SNDO)*

Update Basel IV - not much new on details and still uncertainty about final output floor

Basel IV – Next meeting of BCBS 4 – 5 October 2017.

Final Compromise ?

- General overall output floor 70 – 75 % ?
- Revisions to proposal for new Standardised Approach ?
- Revisions to proposed IRBA restrictions ?
- Transitional provisions until 2027 ?

European Deposit Insurance Scheme, EDIS

- Commission proposal on November 24, 2015 on EDIS
- At the same time the Commission promised a proposal for actions to reduce risks in the banking system ->Risk Reduction Package of November 23, 2016
- EMU Discussion Paper, May 31, 2017: decision on EDIS needed as soon as possible
- Re-insurance 2017-2019, co-insurance 2020-2023, full insurance 2024 -

Future of Euribor

- The Euro Interbank Offered Rate (Euribor) is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market (or interbank market) – earlier published by Euribor-EBF
- Due to fear of manipulation there are thoughts to base the definition on realised deals – but creating the new definitions has proved to be difficult
- Only one thing certain – the future of Euribor is uncertain

State of the Union 2017:

CYBERSECURITY: COMMISSION SCALES UP EU'S RESPONSE TO CYBER-ATTACKS

Building EU resilience: A strong EU Cybersecurity Agency

- **An EU Cybersecurity Agency:** Building on the existing European Agency for Network and Information Security (ENISA), the Agency will be given a permanent mandate to assist Member States in effectively preventing and responding to cyber-attacks. It will
  - improve the EU's preparedness to react by organising yearly **pan-European cybersecurity exercises** and by ensuring better **sharing of threat intelligence and knowledge** through the setting up of Information Sharing and Analyses Centres.
  - help implement the **Directive on the Security of Network and Information Systems** which contains reporting obligations to national authorities in case of serious incidents.

Stepping up the EU's cybersecurity capacity

To reinforce the EU's cybersecurity capacity, the Commission and the High Representative are proposing:

- **A European Cybersecurity Research and Competence Centre** (pilot to be set up in the course of 2018).
- **A Blueprint for how Europe and Member States can respond quickly**, operationally and in unison when a large-scale cyberattack strikes
- **More solidarity**: In the future, the possibility of a new Cybersecurity Emergency Response Fund could be considered for those Member States that have responsibly implemented all the cybersecurity measures required under EU law
- **Stronger cyber defence capabilities**: Member States are encouraged to include cyber defence within the Framework of Permanent Structured Cooperation (PESCO) and the European Defence Fund to support cyber defence projects.
- **Enhanced international cooperation**

IDD

Final delegated acts (DAs) for the Insurance Distribution Directive (IDD)

The European Commission published September 21 the final delegated acts (DAs) for the Insurance Distribution Directive (IDD):

- DA on conduct of business rules for the distribution of insurance-based investment products
- DA on conduct of business rules for the distribution of insurance-based investment products

DAs are now subject to the right of the European Parliament and of the Council to express objections, in accordance with Article 290(2) of the TFEU.