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The 16th Annual European

FINANCIAL SERVICES CONFERENCE

1 FEBRUARY 2018 / BNP Paribas Auditorium . Brussels

In partnership with

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Conference Summary

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Introduction

The 16th Annual European Financial Services Conference took place on 1 February 2018 with a focus on the theme titled **"Towards a full EU financial Single Market"**. Keynote speeches by the **European Commissioner for Economic and Financial Affairs (ECFIN) Pierre Moscovici** and the **CEO of Barclays Jes Staley** conveyed confidence in the future of the European economy, and praised many of the measures that are being taken to develop the Capital Markets Union (CMU) while recommending changes to EU institutional frameworks and reforms towards a broader investment financing base. Throughout the conference, speakers addressed issues on the future of the EU market and investment set against the backdrop of Brexit.

Capital Markets Union: between responsibility and solidarity

Commissioner Pierre Moscovici underlined the economic momentum that has been established in the EU in recent years and stressed the need to extend the umbrella of the CMU to compound the lingering weaknesses in the economy and European institutional structures. He pointed out that post-Brexit the Eurozone will account for 85% of EU GDP and he sees stronger EU growth and broader political consensus (with the UK leaving) as an opportunity to make more ambitious strides towards completing key reforms. Specifically, he called for the completion of the Banking Union through the creation of a backstop for the Single Resolution Fund, new budgetary tools such as a stabilisation tool for the Euro Area, anchoring the European Monetary Fund in the EU legal framework, and the creation of a European Minister of Finance to facilitate coordination between the work of the President of the Eurogroup and the ECFIN Commissioner. **The Head of Group Prudential Affairs at BNP Paribas, Veronique Ormezzano**, remarked that the CMU is not an extension of the Banking Union, but it is a way to rebalance the financial system: 'one side must shrink, and one must grow'. Risk must be reduced in the banking sector and capital markets need to grow across Europe.

Despite Commissioner Moscovici's optimism and energy for reform, he recognised that there was a pragmatic need to find a balance between "responsibility and solidarity", and noted that while significant progress had been made, certain issues remain to be addressed. He said that Non-Performing Loans remained a persistent problem for many lenders and needed to be reined in. In addition, he said that sources of investment funding needed to be diversified to boost competitiveness and innovation. However, he was pleased with the improved fiscal discipline within the EU Member States, saying that the average deficit has fallen from 6% in 2010 to 0.9% in 2017, and that balance sheets had been greatly strengthened in the banking sector. **Verena Ross, Executive Director of ESMA**, pointed out that the CMU is a long-term project that will take time for these efforts to fully bear fruit.

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Barclays' CEO Jes Staley said that the EU's economic growth was underpinned by a healthy balance between domestic consumption and investment, although he had several recommendations for how the EU could grow its access to investment and venture capital. He said that the over-reliance of Europe on its banks is shifting and this must continue, and that a broader financing base will facilitate a far more sustainable economic model. He then stressed the role of venture capital and welcomed the CMU's efforts to address many of the cultural and structural issues in EU finance. A continent-wide pool of capital and liquidity is essential, and that "unity, scale, and purpose" would be the key underpinnings of a successful CMU. Regarding Brexit, he said that he wanted the UK to remain as close as possible to the EU and to maintain full involvement in the CMU. This could start with an initial assessment of equivalence during the transition period, which would help to establish necessary confidence in cross-border contracts and market cohesion from the outset of Britain leaving the EU in 2019.

Investing in Europe: charting the way forward

Participants addressed a number of policy areas relating to the future of investment and the state of regulation in the EU.

On asset management, keynote speaker **Richard Baker, President and CEO of the Managed Funds Association**, argued that challenges include the new prudential regime for investment firms. He said that the variable nature of investment firms must be taken into account, and that the level of assets controlled by a firm is not a judgment on the systemic risk that these funds pose. He argued that, as hedge funds are not systemic in nature, their capital controls should be the same as in UCITS or AIFMs. **Michael Pedroni**, also from the **Managed Funds Association**, speaking on the UCITS and AIFMD regimes, said that portfolio delegation is perfectly consistent with a globalised market, and that UCITS or AIF managers should be able to outsource parts of the portfolio management in order to service customers effectively in third country markets.

On digital issues **Andrew Schlossberg, Chief Executive Officer of Invesco EMEA**, hailed digital as the "great democratiser" of investment advice, and that it could open up new sources of capital investment. **Jung-Duk Lichtenberger, Deputy Head of Unit, CMU** said that Fintech regulation was a big focus of the Commission, and that an action plan would soon be presented to protect and foster the often new investors that are entering the marketplace through digital means.

On long-term savings and pensions, **Pervenche Berès MEP** characterised the Pan-European Pensions Product (PEPP) as a 'breakthrough' for the Commission but qualified this by saying that it needs to remain a Pensions product rather than an investment product. **Michel de Jonge, the International Public Affairs Manager at PGPM**, while stating that PEPP could be beneficial to the pooling of truly pan-European capital, pointed to issues that might be caused by a lack of uniformity in national pensions systems, particularly with respect to IORPs.

Speakers on the whole welcomed efforts to remove barriers to cross-border investments and noted that the European Supervisory Agencies (ESAs) need to be simultaneously strengthened while also being flexible to cope with the diversity in European markets. Achieving this necessitates maintaining strong working relationships between National Competent Authorities (NCAs) and European Agencies. **Pervenche Berès MEP** said that the ESAs need to grow in size, budget, and power for investors to have clarity and to unify the market; however **Deirdre Somers, CEO of the Irish Stock Exchange**, cautioned that a 'one size fits all policy' that arbitrarily removes competencies from NCAs would undermine successful regimes and the ability of providers to put products on the

marketplace quickly. **Paulina Dejmek-Hack, Financial Advisor to President Juncker's Cabinet**, said that efforts should be made to harmonise and consolidate the views of NCAs with the mandated goals of ESAs, but that it is not time to be complacent and the reform agenda must not be dropped. **Lauri Rosendahl, President of Nasdaq Nordics**, offered an alternative view on the future of regulation in the EU. He said that he favoured the development of 'connected networks of local eco systems', saying that this combines local best practice on issues in certain Member States' markets with regulatory convergence under the ESAs.

UK yet to set course on Brexit

There was widespread agreement among all speakers that addressed Brexit that the process was moving far too slowly, due in large part to the lack of clarity on the part of the UK. Europe's biggest cross border firms appear as prepared as they can be, but greater concerns persist about the preparedness of smaller companies. **David Wright, Chair of EUROFI**, said that the accusations of some UK MPs directed at the EU that it was letting politics get in the way of economic sense could easily be turned on the UK, as they favour placating party-political feuds and concerns on immigration over the economic sense of maintaining Single Market access. **Brian Hayes MEP** spoke with greater optimism on a constructive compromise in negotiations, arguing that Member State and UK internal politics may force a compromise that satisfies the UK's and EU's fundamental demands on trade, and that the supposed red lines that UK Prime Minister Theresa May set out may not dictate the UK's final position indefinitely. Commissioner Moscovici set a more resigned tone, saying that the door remains open to the UK to maintain its links with the

EU, but he accepts that Brexit will probably happen, and that agreement in the next round of negotiations will not be found easily. From the private sector, **Jes Staley from Barclays** called on the UK to act on its G20 commitment to work together to deal with global problems. He then called for the Brexit talks to lead to a system of shared market access, underpinned by a full-scale CMU with a high level of alignment between the EU, UK and EFTA states.

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