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Conference Summary

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Introduction

The 17th Annual European Financial Services Conference took place on 29 January 2019 with a focus on the theme titled 'Maintaining Stability in Times of Uncertainty'. The welcome speech was delivered by **David Reed, Partner, Head of Financial Services Practice, Kreab.** He recalled the risks and uncertainties facing the financial world as well as the latest European achievements, among which, the conclusion of the risk reduction measure package, the NPLs backstop agreement and the positive results of the latest banking stress-tests. He concluded by underlining the urgency to move towards the Capital Market Union before the elections.

Keynote Fireside Chat: The views from the Boardroom

The first panel was launched by **Alex Barker, Brussels Bureau Chief, Financial Times,** on the topic of Brexit with the speakers providing their assessment concerning Brexit and the future role of the city. **Shriti Vadera, Chairman, Santander UK,** regarded the least likely outcome to be a hard/no-deal exit on 29 March. She added that this is simply because of the potential of extension until the summer. She also added that large firms were relatively well prepared by now and had requested the necessary permits. **Denis Duverne, Chairman, Axa,** said that the worst possible outcome is a brutal no-deal Brexit and stated that any adopted deal would be very close to the one currently on the table. He also said to be seeing little impact on the insurance sector, where they would have to convert some branches into 3rd countries, but regarded this issue rather as a minor, administrative one. **John McFarlane, Chairman, Barclays,** explained that the fact that the pound had gone up was due to the receding prospect of a no-deal scenario. He also stated his concern regarding the equivalence regime, which he does not consider to be a secure form of regulatory relationship. When asked about a possible arm's length future relationship, he noted that what is currently on the table has to be seen in the context of the UK's economy, 80% of which are services and only 20% of which are goods.

He warned that nevertheless everyone still needs to be prepared for the worst. If the date of exit remains the end of March, he stated that he will have to make a decision in February to move quarter of trillion of assets into the EU: in the absence of any certainty on the withdrawal agreement there would be no other choice. **Shriti Vadera** and **Denis Duverne** both agreed that the continuity of derivates was a key issue, with **Shriti Vadera** pointing at the legal consequences arising from dealing with un-cleared derivatives.

Shriti Vadera asked about technological change and what the financial sector should be watching out for, claiming that the banking sector in Europe is significantly underinvesting in tech change and highlighted

that over-regulation of the sector is hampering developments in the field. She also stated that FinTech should be considered an opportunity rather than a threat. For **Denis Duverne,** tech is as much of a challenge as an opportunity. They need to be ready to interact with customers the way customers want. He also spoke about the opportunities that arise in the insurance sector such as insuring against cyber-attacks.

Shriti Vadera and **Denis Duverne,** when asked about predictions concerning the future, highlighted the different disruptions such as the negative spill-over effects of USA-China relations, Brexit, and the level of debt in Chinese market.

Interview Session on Sustainable Finance

The interview session was opened by **Eric Dugelay, Global Leader, Sustainability Services; Partner, Deloitte France,** who pointed at the big change when, 4 years ago, the Sustainable Development Goals (SDGs) were launched. He also pointed at the rising and ever greater interest in sustainability from the financial sector. The session was then opened to the first panellist, **Lieve Wierinck (ALDE, BE), Member of the European Parliament,** who pointed out the main problems such as the lack of information and comparability, therefore underlining the necessity for environmental social and governance ('ESG') disclosure requirements. She also argued that the disclosures must be a bottom-up approach, starting with corporates. On a sustainability taxonomy, **Lieve Wierinck** highlighted that the EU needs to first adopt a common understanding of what sustainability means, following which the EU can develop the 'social' taxonomy. Additionally, the taxonomy should incentivise firms to transition from 'brown' to 'green' and that 'brown' companies should not be unnecessarily punished. Lastly, she outlined that the European Parliament is currently discussing how to make the taxonomy feasible and practical and that trialogue negotiations will take place during the next parliamentary term.

Laurence Pessez, Global Head of Corporate Social Responsibility, BNP Paribas, spoke in favour of a 'common language' stating that a common dictionary is necessary and must be practical and that the taxonomy and disclosure requirements should be developed in parallel. She agreed with Lieve Wierinck concerning the scope of the taxonomy that should, for now, focus on the environment before opening up to social and governance elements. She then turned to "reporting fatigue" noting that BNP Paribas is currently spending more time reporting than acting.

Capitalising on EU Financial Markets Regulation

The panel was opened by **Theo Timmermans, Secretary General, European Financial Services Round Table,** on the question of financial markets (over)regulation. He remarked that the CMU has not been completed; that insolvency systems also need to be dealt with, and his belief that a de facto CMU will be created once Brexit happens. For **José María Roldán, Chairman and CEO, Spanish Banking Association,** the CMU is the new, extremely complex regulatory paradigm: 'it is working but you don't know exactly how'. He spoke about the necessity to opt for regulations instead of directives, to avoid gold plating and additional complexity. Better supervisory coordination and the eventual introduction of a European supervisor is also essential. He also stated that the difference with the U.S. is that the EU is an 'SME land' and it is therefore crucial to help SMEs understand markets and guide them.

Christian Staub, Managing Director for Continental Europe, Fidelity International, pointed out that, from an asset managers' perspective, it is crucial to be finalising PEPP and promoting a vibrant IPO market. He spoke on how changing demographics call for more savings, whilst lifting burdens on companies to list on stock exchanges and reducing red tape will significantly promote the number of IPOs. Additionally, he insisted on the need to support SMEs.

On CMU progression, **Corentine Poilvet-Clediere, Head of RepoClear and CaLM SA, LCH,** said that their industry is referred to as the "back office of the CMU". She noted that they need to make sure that the EU has sovereignty that is powerful, promoting EU rules, making sure more transactions are denominated in euros, ultimately encouraging the Brazilians and Americans, for example, to do business here. To this extent, she was pleased to see the communication on the international role of the euro. On more commercial markets, they need a safe framework in which to promote the euro outside of the EU, for example by making it simpler for a Japanese firm or investor to choose swaps in euros.

John Berrigan, Deputy Director General, DG FISMA, European Commission, when asked about the Commission priorities, reiterated that the ambition was to have the building blocks in place by 2019, as the CMU itself is a longer-term project. As the current European Commission is reaching its home stretch, it is up to the next Commission to set its priorities. However, from the current Commission standpoint, he said it is important to accelerate work on banking to make sure to lay the basis for cross-border banking in the EU and to complete the Banking Union. This is in addition to looking at the question of overregulation (the European Commission together with FSB and Basel are re-evaluating the level of regulation). He spoke about the crucial nature of insolvency reform as well as taxation but regarded the latter as more complex as it extends beyond the financial sector. On Sustainable Finance, the European Commission aims at long term investment, underlined by proper funding. The European Commission plans to look at the Environmental aspects first – admittedly most complicated – and gradually build in Social and Governance considerations. When speaking about the FinTech Action plan, he stated that what is needed is "less action, more thinking" – ideas need to be further developed before taking concrete action. FinTech space is more flexible and regulation needs to be more organic. Commenting on ESAs, despite Member State resistance, given the existence of multiple points of entry, there is a strong rational for some form of centralisation to ensure a level playing field – unfortunately Member States disagree. Finally, on SMEs, he argued for more realism concerning what can be done in terms of capital markets (definition on size for SMEs).

When asked about what more can be done, **John Berrigan** said it is necessary to recast the narrative behind the CMU project and relaunch the debate. The terms of debate have changed and have focused more on the risk of losing sovereign power. The European Commission and industry appear aligned; therefore, it is crucial to understand the reasons why Member States are resisting the project and offer solutions and structures to allow the trust of the Member States to be restored. At the end, capital markets are built by market participants and not public sector policymakers - the role of the European Commission is to facilitate private sector participation. For **Carmine Di Noia,** 'we' should be thinking in terms of a Financial Markets Union. He spoke in favour of a more codified text to merge different pieces of regulation together as well as more legal certainty in terms of instruments used – Q&As and interpretations are not the proper tool. He also stated that to achieve greater harmonisation, building on ESMA's experience, a stakeholder group at the European Commission level is needed. He finally argued that it is crucial to create stronger supervisors and, ultimately, more coherent behaviours through ESAs review project (with some sort of twin peaks model). On the matter, **José María Roldán** noted that a holistic approach is necessary – it is important to complete both the Banking Union and CMU to compete with the U.S. He also underlined how crucial it is in order to allow SMEs to grow in size.

Answering on a question confronting Artificial Intelligence to Workforce, **Corentine Poilvet-Clediere** noted that there are elements that can be automated in the value chain, but it is not desirable to replace the whole chain. Hence, she argued in favour of human intervention when implementing models for certain markets and certain instances.

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