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MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry

The 15th Annual European

FINANCIAL SERVICES

CONFERENCE

The Shifting Sands of European Financial Services

7 FEBRUARY 2017 / SQUARE - Brussels Meeting Centre



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Conference Summary

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Introduction

The 15th Annual European Financial Services Conference took place on 7 February 2017 with a focus on “The Shifting Sands of European Financial Services”. Keynote speeches by European Commission Vice-President **Valdis Dombrovskis** and Barclays UK CEO **Ashok Vaswani** highlighted the challenges to banks’ business models from developments in technology, the uncertainty created by policy and political changes in Europe, in the UK and in the United States. The need to urgently accelerate the development of a European capital market was emphasised in the context of Europe’s changing relationship with the UK.

Banking in a time of change



Vice-President Dombrovskis

stressed that, although on average European banks’ solvency and liquidity positions are strong and banks have strengthened average capital ratios (of significant banks in the euro area standing at 13.6% CET1), the low profitability of banks

remains a concern. An additional challenge is the high stock of non-performing loans (NPLs) – particularly in certain Member States – which needs to be addressed and cleaned up in order to mitigate contagion risks, possibly through the establishment of a secondary market for stressed debt. As regards Brexit, Dombrovskis noted that the full effect of Brexit is yet to be felt by European banks. Moreover, it is hindering the banking sector as it is having to engage in contingency planning instead of focusing on servicing the real economy. An orderly but swift Brexit was in the best interests of the UK and the EU.

Next steps in the EU prudential agenda aim to strike a balance between reducing the risks that still remain -

the so-called risk reduction package - and the need to stimulate further investment/jobs & growth and relieve the regulatory burden in a proportionate way. Banking representatives explained that digitisation, pressures on business lines which are now less profitable, and competition from new entrants provide opportunities for industry reform and business remodelling.



Barclays’ Ashok Vaswani

argued that, whilst 2016 had seen dramatic shifts globally – notably of a political nature - it was the slowest pace of change the world is going to see for the coming decade where we will see far more fundamental changes. Big Data is the future of banking

and “open data” will be a major driver of competition. He stressed that the consumer environment has shifted dramatically as more sophisticated technology has driven demand and information has become democratised, which no longer allows for business models based on information arbitrage.

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Capital Markets Union

Participants overall agreed that the CMU project was even more important now than before in the context of Brexit. The EU cannot solely rely on London acting as the EU's financial centre when it is no longer an EU member state. Euroclear Chairman **Marc Antoine Autheman** noted that Europe's financial centers are currently heavily under-developed to deliver the services required by the EU. On behalf of London Stock Exchange group, **Serge Harry** remarked that a better functioning CMU could reduce the cost of capital in the EU, which is now about 40 basis points higher than in the US; while the financial system could be more stable if there were a rebalancing



between equity and debt. Commission Director for Financial Markets **Ugo Bassi** reassured the audience of the Commission's strong commitment to the CMU initiative. He underlined the necessity to accelerate its implementation, notably through the inclusion of new areas addressing insolvency, pensions, FinTech, and sustainable finance, as well as via a combination of EU, Member States and privately led initiatives.



These will be presented in the CMU mid-term review of June 2017.

This should ideally also be combined with the strengthening of the EU supervisory architecture, although it is uncertain that the Member States share this vision fully and their level of support for this is still to be determined. FSMA Chairman **Jean-Paul Servais** agreed that CMU should help capital flows, but that CMU will only work effectively if there are sound and appropriate products which are simple, as that instills trust and confidence for end users and consumers.



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Uncertainty around global cooperation on regulation



Wally Adeyemo, Former Deputy National Security Advisor for International Economics and Deputy Director of the National Economic Council under President Barack Obama highlighted that recent executive orders in the United States, and other domestic financial policy

reflections as regards US participation in international work, will have significant implications for Europe and the rest of the world. That said, it seems unlikely

that the pace and level of change will be as much as reformist politicians claim or as much as some industry stakeholders fear. Even so, deregulatory tendencies in the US – in the form of the review of Dodd-Frank and possible disengagement from international bodies – and the UK, following what seems to be looking like a ‘hard Brexit’, could lead to several diverging sets of rules for financial market participants. Mr. Adeyemo emphasised that shared rules are important for the safety and stability of the financial system.

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