The Weekly Report from Brussels, provided by the European Affairs team at the City of London, provides update on key developments relating to financial services in the EU.

24 February 2017

Welcome to the Weekly Report, prepared by the City of London European Affairs team.

This week includes:

- **Eurogroup meeting**
- **ECOFIN Council Meeting**
- **Mike Pence meets with EU leaders in Brussels**
- **Post-Brexit clarity needed for UK clearing houses**
- **In other news**
- **Upcoming EU Institutions events and consultations**

More information about the work of the City of London European Affairs team can be found **here.**

Eurogroup Meeting

Eurogroup Ministers met in Brussels on 20 February to **discuss** the economic forecast for the eurozone, as well as discussing national best practices for creating favourable conditions for doing business and the state of play of Greece's economic adjustment programme.

Economic Forecast of the Eurozone for 2017-2018:

Eurogroup ministers discussed the economic outlook for the eurozone, following on from the Commission's **2017 winter economic forecast**, with which the Eurogroup Ministers broadly agreed. According to the forecast, the economic recovery in the eurozone is set to continue, although uncertainty surrounding the outlook has increased. Real GDP growth is now expected to reach 1.6% in 2017 and 1.8% in 2018.

The forecast also notes that inflation in the eurozone has recently increased due to rising energy prices, with inflation expected to increase from 0.2% in 2016 to 1.7% in 2017. However, the forecast noted that core inflation, which excludes volatile energy and food prices, is set to rise only gradually. This rise in inflation is likely to impact private consumption, which has been the main growth driver in the eurozone, and is expected to grow at a slower pace in 2017.

Finally, the aggregate eurozone public deficit and the government debt-to-GDP ratio are expected to fall further in 2017 and 2018, largely due to lower spending on interest because of low interest rates, but also because improvements in the labour market have resulted in an increase in tax contributions and a fall in benefit payments.

Thematic discussion on Growth and Jobs - Ease of Doing Business:

Eurogroup Ministers shared national best practices for creating favourable conditions for doing business, as part of a strategy to improve economic growth and employment in the eurozone. The discussion focused on matters such as efficiency of public services as well as administrative and regulatory burden.

The contributions from the discussion will form a part of the Eurogroup's broader discussion on investment in the eurozone, which brings together strategies to address the efficiency of public administration, the business environment and sector-specific regulation bottlenecks.

Greece - State of Play:

Eurogroup Ministers were briefed by Euclid Tsakalotos, Greek Minister of Finance, and by representatives from the European Commission, the European Central Bank, the International Monetary Fund and the European Stability Mechanism. These briefings discussed the second review of **Greece's economic adjustment programme** and the main issues where agreements have yet to be reached in fiscal strategy and labour market reform.

Ministers welcomed the common ground reached by the Greek Government and the institutions which allows the review to continue. Following the meeting Jeroen Dijsselbloem, President of the Eurogroup, commented that, as the programme continues, there will be a change in the policy mix, moving away from austerity and putting more emphasis on deep structural reforms in the tax system, the pension system and labour market regulation.

ECOFIN Council Meeting

On 21 February, the Economic and Financial Affairs (ECOFIN) Council met to discuss items including legislation to tackle corporate tax avoidance, the creation of a list of non-cooperative tax jurisdictions and the upcoming meeting of G20 finance ministers.

Corporate Tax Avoidance:

During the meeting, the Council agreed on a draft Directive which set out to remove 'hybrid mismatches' with the tax systems of third countries. Disparities between EU Member States are already covered by rules in the **Anti-Tax-Avoidance Directive** thus the second iteration of the Directive aims to complete the work already undertaken to prevent large corporations from exploiting disparities between multiple tax jurisdictions to reduce their overall tax liability.

Agreements were reached on the following issues:

- For hybrid regulatory capital, a carve-out from the rules is established for the banking sector. The carve-out will be limited in time, and the Commission will be asked to present a report assessing the consequences.
- For financial traders, a delimited approach is followed in line with that followed by the OECD.
- Implementation is set for 1 January 2020, and for 1 January 2022 as regards reverse hybrid mismatches.

The proposal contributes to the implementation of the OECD's recommendations on **Base Erosion and Profit Shifting (BEPS)** in 2015. The proposed Directive will be submitted to the European Parliament for consideration, after which it needs to be approved by unanimity in Council to be adopted.

Non-cooperative Jurisdictions in Taxation Matters:

The Council was updated on efforts on the establishment of an EU list of non-cooperative jurisdictions in taxation matters, following on from its **agreement** in November 2016. These efforts are being led by the Council's working group responsible for implementation of an EU code of conduct on business taxation. The working group will conduct and oversee a screening process that will lead to the establishment of the list.

The Council is due to finalise the list of non-cooperative jurisdictions before the end of 2017. In the meantime, it will explore potential defensive measures that could be applied.

Preparations for the Meeting of G20 Finance Ministers:

The Council discussed preparations for the meeting of G20 finance ministers and central bank governors to be held in Baden-Baden, Germany on 17-18 March. The meeting will feature discussions on international financial institutions, taxation, financial regulation and a compact for Africa.

The EU will be represented by the Presidency of the Council, as well as the Commission and the European Central Bank. Priorities for Member States which were set out include enhancing resilience against future financial crises, shaping digitalisation and supporting investment, particularly in Africa.

Mike Pence meets with EU leaders in Brussels

Vice President of the United States, Mike Pence, visited Brussels on 20 February as part of his first trip to Europe. During this visit, he met with President of the European Council Donald Tusk and President of the European Commission Jean-Claude Juncker to discuss the future relationship between the EU and the US, as well as to reassure EU leaders following recent comments by US President Donald Trump about the role of the EU and NATO.

During their meeting, Mr Juncker **emphasised** the importance of a strong EU-US relationship for global stability and Mr Juncker and Mr Pence reaffirmed their commitment to cooperation, notably in areas of strong mutual interest, which include combatting terrorism, security and defence, migration and the promotion of common values. Mr Juncker also highlighted the importance of the commercial relationship between the EU and US, noting that the US economy relies on trade with the EU to increase employment and growth in the US.

Mr Tusk **sought reassurances** that the US administration believes that maintaining order through international law and that a united Europe are in the interests of the US, both of which Mr Pence agreed with. They also discussed the future working relationship between the UK and the EU, as well as common security and the US administration's approach on these areas.

Following these meetings, Mr Pence addressed the media stating "The United States' commitment to the European Union is steadfast and enduring. President Trump and I look forward to working together with you and the European Union to deepen our political and economic partnership."

During his visit, Mr Pence also **met** with NATO Secretary General Jens Stoltenberg during which Mr Pence said that President Trump shared his unwavering commitment towards

NATO, but that it was important that all members meet the 2% defence spending target quickly in order to maintain Europe's security.

Post-Brexit clarity needed for UK clearing houses

The International Regulatory Strategy Group (IRSG), a regulatory advisory body to the City of London and TheCityUK, has published a research paper on Central Counterparties which warns that a lack of clarity on the future status of UK-based clearing houses could pose market disruption and a sharp increase in costs to users of financial markets in the EU27 countries.

The paper assesses what the impact would be on banks and non-financial organisations if the UK and EU approach to regulation for clearing remained unchanged after Brexit and identifies alternative policy measures for the sector. It shows the need for a transitional period to avoid a significant risk of market disruption when UK clearing houses will no longer meet current EU regulations once the UK formally leaves the EU. This will also impact users of financial markets in the EU27, as they will also fall outside of internationally-recognised requirements.

Playing a central role in helping address the global financial crisis, clearing houses manage transactions between financial institutions, such as banks, pension funds and industrial commercial businesses. The UK processes around 40% of all global trades through clearing houses. Comparatively, the remaining EU27 cumulatively handle less than 10% of the total. Because an extensive part of the EU markets rely on UK clearing houses, any disruption in the provision of these services would fragment activities and reduce pools of liquidity. This would lead to an increase in the cost for banks and their customers and reduce their ability to bring growth, innovation and financing to the real economy, in both the UK and the EU27.

Any breach of legal requirements means firms would have to hold more capital or face a significant fine. In order to avoid disruption to the European clearing network, the paper suggests that Government should work with the European Commission to agree and put in place transitional arrangements that will enable markets to continue operating.

Mark Hoban, Chairman of the IRSG said: "London, as Europe's financial centre, provides vital services to banks and corporates across the EU27. One of those services is clearing, which enables users to reduce risk and ensures the efficient use of capital.

"It is crucial that as part of the Article 50 process an agreement must be reached on transitional arrangements that avoid a cliff edge effect when the UK leaves the EU that risks financial stability and forces firms to hold more capital – a cost that will be borne by their clients.

“That transitional arrangement must bridge the period between when we leave the EU and agreement being reached on the new relationship between the UK and the EU27 and an implementation period to enable the new arrangements to be put into place.”

In other news

- The EBA has **launched** a public consultation on its draft Guidelines on the complaints procedures to be taken into consideration by competent authorities to ensure and monitor effective compliance by payment service providers (PSPs) of the revised Payment Services Directive (PSD2)
- The EBA issued an **opinion** to the European Commission, expressing dissent over some of the proposed amendments to its final draft Regulatory Technical Standard (RTS) on the separation of payment card schemes and processing entities under the Interchange Fee Regulation (IFR).
- The Single Resolution Board has published a **report** on its approach to the minimum requirement for own funds and eligible liabilities (MREL), which applies to banks under the Bank Recovery and Resolution Directive.
- The European Supervisory Authorities published a **joint opinion** addressed to the European Commission on the risks of money laundering and terrorist financing affecting the European Union's financial sector.
- A delegation of MEPs in the PANA Committee conducted a fact-finding **mission** to Malta and called for increased transparency in Malta’s taxation system.

Upcoming EU Institutions events and consultations

28 February: Deadline for responses to EIOPA **Discussion Paper** on Potential Harmonisation of Recovery and Resolution Frameworks for Insurers
3 March: Deadline for responses to EIOPA **Discussion Paper** on the Review of Specific Items in the Solvency II Delegated Regulation
7 March: Deadline for responses to EBA **consultation** on Guidelines on major incidents reporting under PSD2
13 March: Deadline for responses to Financial Stability Board **consultation** on Guidance on Central Counterparty Resolution and
Resolution Planning

17 March: Deadline for ESMA Joint Committee **Discussion Paper** on the Use of Big Data by Financial Institutions
17 March: Deadline for responses to Commission **consultation** on the capital markets union mid-term review 2017

City of London Research

The City of London produces regular research on EU Financial Services which can be accessed **here.**

Contacts - Brussels

Mike Vercnocke
Head of European Affairs
+32 (0)2 282 8457
michael.vercnocke@cityofficebrussels.be

Michael O'Shea
European Policy Advisor
+32 (0)2 282 8456
michael.oshea@cityofficebrussels.be

Tom Jobling
European Policy Assistant
+32 (0)2 282 8455
thomas.jobling@cityofficebrussels.be

Contacts - London

Sarah Murray

European Regulatory Affairs Manager

+44 (0)20 7332 3968

sarah.murray@cityoflondon.gov.uk

Audrey Nelson

Senior European Regulatory Affairs Advisor

+44 (0)20 7332 1054

audrey.nelson@cityoflondon.gov.uk

Maja Erceg

European Regulatory Affairs Advisor

+44 (0)20 7332 1451

maja.erceg@cityoflondon.gov.uk

Our mailing address is:
City of London Corporation
PO Box 270, Guildhall,
London, London EC2P 2EJ
United Kingdom