

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



---

**3 March 2017**

---

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

This week includes:

- [Commission White Paper on the Future of the EU](#)
- [National Barriers preventing progress in the Capital Markets Union](#)
- [Financial Services Commissioner faces questions from ECON Committee](#)
- [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](#).

---

### **Commission White Paper on the Future of the EU**

With less than four weeks to go before the 60th anniversary of the Treaty of Rome, the European Commission published on 1 March a White Paper on the Future of Europe which, while also examining the history of the Union, presents a number of different scenarios depicting how the EU could look in 2025.

#### **Latest developments:**

The White Paper first discusses the vision upon which the EU was built: peace, unity and prosperity. However, in championing the successes of the European project and highlighting the progress made over the last 60 years, the Commission also acknowledges the challenges facing the Union today, namely: economic stagnation, security and migration, declining population and, ultimately, disagreement on the vision for the future of the EU.

Therefore, the underlying message in the White Paper is clear: Member States must be united in addressing the challenges and opportunities facing the EU. On presenting the White Paper, Commission President Jean-Claude Juncker stated that "...it is time for a united Europe of 27 to shape a vision for its future. It's time for leadership, unity and common resolve". The Commission has not, however, sought to provide a single, overarching vision for the EU; rather the White Paper contains five scenarios for how the Union could evolve by

2025, each with varying levels of ambition.

#### Scenario 1: Carrying on

Essentially preserving the status quo, the “carrying on” scenario sees the EU27 staying on the same trajectory towards further integration, i.e. delivering the Commission's New Start for Europe (a 2014 publication focusing on jobs, growth, fairness and democratic change) and the Bratislava Declaration (the general principles agreed by the EU27 in September 2016).

#### Scenario 2: Nothing but the Single Market

This approach would see EU Member States focusing more on economic policy, rather than the wider agenda, and deepening certain key aspects of the Single Market. While focusing on progressing one of the four freedoms of the Single Market (i.e. the free movement of capital), the “nothing but the Single Market” scenario ultimately depicts a more fragmented EU which strays far from the common goals which are championed at the moment.

#### Scenario 3: Those who want to do more

This scenario presents a vision for a ‘multi-speed’ EU which would see those Member States willing to integrate further on certain issues (e.g. social matters, defence and security) do so through “coalitions of the willing”. As described in the White Paper, a multi-speed EU would require greater harmonisation among the “willing” on tax policy, crime prevention and intelligence cooperation.

#### Scenario 4: Doing less more efficiently

“Doing less more efficiently” would see the EU27 scale back on what would be determined as non-core policy areas (e.g. regional policy) to allow for greater focus on central themes such as trade and security. Delivering more efficient policy outcomes might be desirable but it seems unlikely that Member States who benefit from the EU’s regional policies and funding would be supportive of such a vision for the EU.

#### Scenario 5: Doing much more together

“Doing much more together” could be seen as a march towards a more integrated, federal EU with Member States pooling power and resources more generously. This scenario would lead to more efficient decision making at an EU level, but would also require much greater cooperation between Member States, particularly on security. The eurozone would also see much greater fiscal and social harmonisation, with greater power handed over to European Supervisory Authorities (ESAs). Finally, the European Parliament would play a much more prominent role in future trade agreements (thus mitigating the role of national and regional parliaments).

#### **Next steps:**

President Juncker described the publication of the White Paper as “the start of the process” that will shape the future of the EU27 – this is what EU leaders will be discussing at on 25 March in Rome on the 60th anniversary EU’s founding treaties. The Commission will further

contribute to this discussion by publishing a number of reflection papers on issues such as Europe's defence, social dimension and finances.

While many debates on 'The Future of Europe' will take place across EU institutions and Member States in the coming months, the focus will centre on President Juncker's State of the Union address in September which will progress the issues raised during these discussions. EU leaders will then draw initial conclusions on the future of the Union at the European Council on 14 and 15 December.

---

## **National Barriers preventing progress in the Capital Markets Union**

On 27 February, the European Commission published a report looking at how to address national barriers which prevent the flow of cross-border investments in the EU.

The **report** was based on contributions from the Expert Group on Barriers to Free Movement of Capital, which was set up in October 2015.

The most significant barriers to the free movement of capital and actions identified in the report were:

- **Marketing requirements:** wide disparities in national rules and divergent supervisory approaches are a significant impediment to a fully effective passport in the asset management sector, and Member States should consider exempting pre-marketing and reverse solicitation from national marketing requirements. The Commission aims to support Member States and ESMA to work together to achieve supervisory convergence in this area.
- **Residence Requirements:** Requiring residence in a country as a condition for managers restricts the free movement of capital, especially for smaller financial service providers. The Commission calls for residency requirements for managers of companies in the financial sector to be removed where they are not justified, suitable or proportionate.
- **Differences in National Insolvency Regimes:** The latest Capital Markets Union (CMU) communication from the Commission found that differences and inefficiencies in some national insolvency procedures have a negative impact on cross-border investment and lending. The Commission proposed a **Directive on Insolvency, Restructuring and Second Chance** in November 2016, which it calls on Member States to support, and has launched a benchmarking exercise to compile a detailed picture of national differences in insolvency and loan recovery procedures.
- **Withholding Tax Relief Procedures:** To avoid double taxation on cross-border investment, most bilateral tax treaties allow for a refund on withholding tax, but in practice the procedures for reclaiming withholding tax is often burdensome. In several Member States the time it takes to pay out reclaims can often be years and the Tax Barriers Business Advisory Group calculated the cost to investors of withholding tax reclaim procedures to be €8.4 billion. The Commission encourages Member States to implement the best practices on withholding tax reclaim procedures by 2019 and will work with national tax experts to design a Code of Conduct on Withholding Tax Relief Procedures and a scoreboard to monitor the progress of individual Member States.

Other areas identified in the report included:

- **Requirements on Investment by Pension Funds:** Some pension funds may have a national bias in the types of investments they choose to make, often arising from national regulatory constraints. The Commission calls on Member States to look at other opportunities available to increase pension funds' cross-border investments through the Investment Plan for Europe.
- **Different National Approaches to Crowdfunding:** Due to crowdfunding being in the early stages of development, differences in national consumer and investor protection rules can lead to many platforms refusing services to non-residents. The Commission will work with ESAs to determine the most effective approach to take with crowdfunding platforms to ensure investor protection whilst permitting cross-border activity.
- **Insufficient Financial Literacy:** Faced with increasingly complex financial products, consumers may make unwise financial decisions without a proper understanding of the risk involved or miss optimal investment opportunities, especially with cross-border investments. The Commission will work with Member States to exchange best practices on the design and implementation of financial literacy programmes.
- **Administrative Arrangements:** Differing administrative arrangements imposed by Member States can be a barrier to cross-border investment, and many Member States require that investors use facilities for redeeming and obtaining payments that are based in their territory. The Commission calls on Member States to map the administrative arrangements in national legislation, with the aim of eliminating unnecessary administrative burdens by 2019.
- **Regulatory Fees for Cross-Border Marketing:** Registration fees can vary significantly between Member States and annual fees for stand-alone UCITS and AIFs can range from €200-€4,000. The Commission calls on Member States to ensure clarity and transparency in their fees regime by publishing all fees information on a single, public website.

The Commission expects to put forward further proposals aiming to overcome barriers to the free movement of capital, as well as other cross-border capital market issues in the CMU mid-term review. The results from the consultation of the mid-term review will be presented in a public hearing on 11 April. A review of the CMU Action Plan is scheduled for mid-June.

---

### **Financial Services Commissioner faces questions from ECON Committee**

On 28 February, the Economic and Monetary Affairs (ECON) Committee held a **structured dialogue** with Valdis Dombrovskis, European Commission Vice-President for Financial Stability, Financial Services and Capital Markets Union. The dialogue covered a range of topics including equivalence for UK-based financial firms following the UK's withdrawal from the EU, the Banking Reform Package and sovereign bonds.

#### **Latest Developments:**

Commission Vice-President Dombrovskis opened the dialogue by welcoming the fact that the EU economy is performing strongly, with each Member State expected to show positive

growth and reduce their public deficit this year. However, he also highlighted the international backdrop of uncertainty following the recent change in US administration and the unknown outcome of the UK's negotiations with the EU, and stated the Commission's priority is to strengthen growth in the EU through investment, responsible fiscal policies and structural reforms.

Specific points he raised during his speech included:

- On the **Banking Reform Package**, Mr Dombrovskis welcomed the Committee's recent report on the package and said that the Commission would work with MEPs to ensure that the technical standards agreed in the package are effective and proportionate. With this in mind, the Commission intends to ensure that the leverage ratio and capital requirements are sufficient enough to better absorb losses, whilst also making sure the requirements take into account different business models and risk profiles. There will also be a focus on reducing reporting burdens and administrative costs for smaller banks.
- On **non-performing loans (NPLs)**, the Commission is working with Member States to find solutions within the existing rules on bank resolution and state aid, but Mr Dombrovskis reiterated that a coordinated approach at the EU level is essential and thus NPLs will remain a high priority in upcoming Economic and Financial Affairs (ECOFIN) Council meetings.
- The Commission recently **published** an overview of **equivalence decisions in financial services policy**, which lists all the decisions taken by the Commission as well as explaining the process in determining whether to grant equivalence. It also provides an overview of the Commission's experience with the equivalence framework.
- On the **Capital Markets Union (CMU)**, Mr Dombrovskis welcomed the agreement between Parliament and the Council on the Prospectus Directive and called for greater progress on the STS Securitisation proposal and amendments to European Venture Capital (EuVECA) and European Social Entrepreneurial Funds (EuSEF).
- On the **European System of Financial Supervision**, Mr Dombrovskis discussed the upcoming review of the European Supervisory Authorities (ESAs).

Following Mr Dombrovskis's statement, Brian Hayes MEP (EPP, Ireland) highlighted that, according to the Irish Ministry of Finance, a 'hard' Brexit – one which would see the UK withdraw from the Single Market and Customs Union altogether – could increase Ireland's public debt by €20 billion over ten years. With this in mind, Mr Hayes asked if the UK's withdrawal from the EU could constitute as exceptional circumstances which might allow flexibility in meeting the rules of the **Stability and Growth Pact** for some Member States. Mr Dombrovskis responded that his assessment was that the UK's withdrawal from the EU would have negative economic impacts for both the UK and the EU and the Commission wouldn't rule out any options on how to respond.

Mr Hayes also asked whether the EU would support a transitional period of enhanced equivalence to mitigate the economic impact. Mr Dombrovskis responded that the UK's withdrawal will result in a loss of passporting rights for UK-based financial firms, but that the UK could apply for equivalence, which is very likely to be a large component of the UK's negotiations with the EU.

Pervenche Berès MEP (S&D, France) asked whether the Commission has changed its approach to implementing the Basel framework following announcements from the new US administration to reduce existing financial regulation. Mr Dombrovskis responded that the Commission is taking into account actions by the US administration, such as attempts to roll back Dodd-Frank, but that the EU intends to continue working through the EU-US Financial Markets Regulatory Dialogue (FMRD) to develop a mutual understanding of EU and US regulatory approaches.

Ashley Fox MEP (ECR, UK) asked why the Commission has chosen to deviate from the terms agreed in the Basel negotiations by allowing banks to assign zero risk weight to sovereign debt bonds, and whether this decision was taken as a result of assurances received from the European Central Bank (ECB). Mr Dombrovskis refuted the claim that the decision was taken due to assurances from the ECB, but that there was an ongoing debate in the EU on how to respond to sovereign risk weights.

Paul Tang MEP (S&D, Netherlands) raised financial risks associated with climate change and asked how these should be factored into current and future financial regulation. Mr Dombrovskis responded that a significant number of responses to the recent Call for Evidence identified climate risk as an area which could be addressed in financial services regulation, and that the disclosure of climate change risks by asset managers or having climate stress testing for financial institutions could strengthen financial stability and give greater information to investors.

---

### **In other news**

- The European Commission published an **assessment** of equivalence decisions adopted by the Commission in the area of banking and finance
- The ECON and LIBE Committees **voted** to allow access registers of beneficial owners of companies for prevention of the use of the financial system for the purposes of money laundering or terrorist financing.
- The ECON and JURI Committees held a **hearing** on the disclosure of income tax information by certain undertakings and branches in country-by-country reporting (CBCR)
- The IMCO Committee held a **workshop** on the consequences of Brexit

- The ECON Committee considered [amendments](#) on changes to European Venture Capital (EuVECA) and European Social Entrepreneurship Funds (EuSEF)
  - The ECON Committee held a [discussion](#) on FinTech: the influence of technology on the future of the financial sector
  - The ECON Committee considered a [report](#) on hybrid mismatches with third-countries
  - The EBA [consults](#) on specification of an economic downturn
  - Commission Vice-President Valdis Dombrovskis delivered the [keynote speech](#) at the FinTech & Digital Innovation Conference
  - Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, delivered a [speech](#) on 'the possible impact of Brexit on the financial landscape'
  - Payments UK publishes a [report](#) on how payments could be affected by the UK's exit from the EU
- 

### **Upcoming EU Institutions events and consultations**

**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

**20 March:** Deadline for responses to EBA [consultation](#) on Guidelines on supervision of significant branches

**31 March:** Deadline for ESMA [consultation](#) on ESMA's Guidelines on transfer of data between TRs

---

### **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](mailto:michael.vercnocke@cityofficebrussels.be)

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

**Tom Jobling**  
**European Policy Assistant**  
+32 (0)2 282 8455  
[thomas.jobling@cityofficebrussels.be](mailto:thomas.jobling@cityofficebrussels.be)

---

## **Contacts - London**

**Sarah Murray**  
**European Regulatory Affairs Manager**  
+44 (0)20 7332 3968  
[sarah.murray@cityoflondon.gov.uk](mailto:sarah.murray@cityoflondon.gov.uk)

**Audrey Nelson**  
**Senior European Regulatory Affairs Advisor**  
+44 (0)20 7332 1054  
[audrey.nelson@cityoflondon.gov.uk](mailto:audrey.nelson@cityoflondon.gov.uk)

**Maja Erceg**  
**European Regulatory Affairs Advisor**  
+44 (0)20 7332 1451  
[maja.erceg@cityoflondon.gov.uk](mailto:maja.erceg@cityoflondon.gov.uk)

---

*Copyright © 2017 City of London Corporation, All rights reserved.*  
The Weekly report from Brussels is part of a free information service provided by the City of London to subscribers.

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