

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.



13 April 2017

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

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More information about the work of the City of London European Affairs team can be found [here](#).

Hearing on CMU Mid-Term Review

On 11 April, the European Commission hosted a [public hearing](#) on Capital Market Union (CMU), where Commission Vice-President Valdis Dombrovskis set out the key responses to the Commission's consultation earlier this year, ahead of the mid-term review of the CMU Action Plan.

Background:

The [Capital Markets Union \(CMU\)](#) has been a key priority of the Juncker Commission, with the aim of stimulating investment within the EU to create jobs increase economic growth by establishing integrated capital markets across the EU. In September 2015, the Commission set out an [Action Plan](#) on the CMU which set out a timetable for actions which were needed to develop the CMU by 2019, by removing barriers to cross-border investment and lowering the costs of funding.

As set out in the Action Plan, the Commission held a [consultation](#) for the CMU between January and March, which sought feedback on how the current programme can be updated and completed in order to provide a strong policy framework for the development of capital markets. The responses from this consultation will contribute towards the Commission's Mid-Term Review of the CMU Action Plan.

Latest Developments:

Mr Dombrovskis opened the hearing by stating that there is broad consensus from policy-makers and investors that the CMU is necessary if the EU is to meet its investment needs after a decade of low to moderate growth, as well as being an opportunity to reduce businesses dependence on bank loans. Furthermore, he argued that the UK's expected withdrawal from the EU means it is more important to have integrated capital markets across the EU.

He then discussed what future actions must be taken to strengthen the CMU, noting that the Commission had received more than 180 responses to its recent consultation. Respondents to the consultation highlighted the following points:

- The Commission needs to take further efforts to promote private markets for equity and debt through legislation, with proportionate legislation for smaller companies.
- Whilst the amount of private capital available for infrastructure projects is increasing, it does not currently meet the expected investment needs over the coming decade, which is why the Commission will shortly be introducing lower capital requirements for infrastructure corporates in Solvency II.
- Financial regulation should accelerate the flow of private capital from environmentally unsustainable to sustainable green projects, which is why the Commission will take on board the recommendations from the newly-created High Level Expert Group on Sustainable Finance.
- As FinTech is transforming capital markets by bringing in new non-bank market players and creating new processes, areas such as crowdfunding, robo-advice, and block chain technology should be integrated into the CMU policy framework.

Mr Dombrovskis also acknowledged many submissions said that the implemented measures of the CMU have only had limited impact. He responded that the Commission has always been clear that the creation of integrated capital markets would be a long-term process and that regulatory reform is only one part of the changes needed, as investors and supervisors need to fully embrace the transparency and disciplines that capital markets require.

The Commission is expected to present the mid-term Review of the CMU Action Plan in June 2017.

Council expected to approve Brexit negotiation guidelines

It was revealed this week that the **draft guidelines** for negotiations on the UK's withdrawal from the EU are to be agreed by the EU27 without any significant changes on 29 April. The draft guidelines were sent to the 27 EU Heads of Government on 31 March. Whilst not publicly released by the European Council, the document was leaked to the press on the same day.

Core principles:

The document states the importance of Member States maintaining a united position during the negotiations and declares that the EU will be constructive and work towards a deal that

is in the interests of both sides, although it recognises that the negotiations may fail. It also sets out the core principles that the EU intends to follow during the negotiations, namely that, once it is a third-country, the UK cannot receive the benefits of the Single Market without taking on the obligations, and rules out granting participation in the Single Market on a sector-by-sector approach. Additionally, it rules out undercutting the negotiations by allowing separate negotiations between individual Member States and the UK.

Framework for negotiations:

The document calls for a phased approach to negotiations, with the first phase focussing on the terms of the UK's exit; the second on the future arrangement between the EU and the UK; and, if possible, a final phase providing for a transitional period. It states that the negotiations on the terms of the UK's exit must be concluded before any agreement on a future or transitional relationship is concluded. It allows for the negotiations on a future relationship to begin before the exit negotiations are concluded, but the future relationship agreement can only be concluded after the UK has become a third-country. A transitional agreement will only be sought if it is in the interests of the EU and providing that it is clearly defined, limited in time, and subject to effective enforcement mechanisms.

Issues of Priority:

The document calls for priority in the negotiations to be given to issues necessary for an orderly withdrawal, namely:

- Agreeing reciprocal guarantees for EU citizens residing in the UK and UK citizens residing in the EU, and their families. Such guarantees should be enforceable and non-discriminatory.
- Addressing the legal uncertainties for businesses which have entered into contracts or take part take in EU-funded programmes based on the assumption of continued British EU membership.
- A single financial settlement between the UK and the EU which covers all legal and budgetary commitments as well as liabilities, including contingent liabilities.
- Finding solutions to address the unique circumstances posed by Northern Ireland and the Good Friday Agreement.
- Ensuring that the UK honour its share of international commitments contracted in the context of its EU membership.
- To ensure legal certainty, contracts entered into prior to withdrawal are grandfathered so that the Court of Justice of the European Union remains competent to adjudicate such cases.
- The withdrawal agreement should include appropriate dispute resolution mechanisms regarding the application of the withdrawal agreement.

Framework for a future deal:

The document conveys an openness to an ambitious and wide-ranging free trade agreement, but that such an agreement mustn't undermine the Single Market. Any free trade agreement must also include safeguards to prevent either side holding an unfair competitive advantage and must include appropriate enforcement and dispute resolution mechanisms. Additionally, the EU is open to establishing partnerships in other areas in a future relationship, in particular the fight against terrorism and international crime as well as security and defence.

In other news

- The European Central Bank has set up a [webpage](#) for banks considering relocating banking activities to the eurozone
 - The Financial Stability Board has launched a consultation on the main elements of a proposed framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms
 - ESMA has published its [response](#) to the Capital Markets Union mid-term review
 - ESMA has issued an opinion on the implementation of portfolio margin requirements for central counterparties (CCPs) under EMIR
 - The EBA has published a [roadmap](#) outlining its plans to update the common European framework for the supervisory review and evaluation process (SREP) in 2017-2018
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Upcoming EU Institutions events and consultations

28 April: Deadline for responses to EIOPA [consultation paper](#) on the Proposal for Guidelines under the Insurance Distribution Directive on Complex Insurance Based Investment Products

5 May: Deadline for responses to EBA [consultation](#) on RTS on CCP to strengthen fight against financial crime

11 May: Deadline for responses to FSB [consultation](#) on a framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms

16 May: Deadline for responses to EBA [consultation](#) on Guidelines on procedures for complaints of alleged infringements of the PSD2

29 May: Deadline for responses to EBA [consultation](#) on RTS on the specification of the nature, severity and duration of an economic downturn

2 June: Deadline for responses to EBA [consultation](#) on the coverage of entities in a group recovery plan

5 June: Deadline for responses to EBA [consultation](#) on Guidelines to prevent transfers of funds can be abused for ML and TF

City of London Research

The City of London produces regular research on EU Financial Services which can be accessed [here](#).

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