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.

30 June 2017

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

This week includes:

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

Priorities of the Estonian Presidency in Financial Services and the Digital Economy

On 1 July 2017, the Estonian Government will take over the six-month rotating Presidency of the Council of the European Union. The Member State that holds the Presidency is responsible for driving forward the Council's work on EU legislation, ensuring the continuity of the EU agenda, orderly legislative processes and cooperation among Member States.

The Government of Estonia has outlined its **priorities** over the next six months, which cover four key themes: an open and innovative European economy; a safe and secure Europe; a digital Europe and the free movement of data; and an inclusive and sustainable Europe.

Specific priorities related to financial services and the digital economy include:

- The Estonian Presidency aims to boost the cross-border provision of services by accelerating progress in negotiations on the Services Package for a services e-card, services notification procedure and the proportionality assessment of professional qualifications.

- The Presidency will set out new goals for implementing the measures set out in the Action Plan to Build a Capital Markets Union, based on the Commission's mid-term review.
- The Estonian Presidency wants to further develop the proposals on establishing common rules for the banking sector in order to reduce risk and strengthen financial stability. The Presidency will also advance the debate on deepening the EMU, while maintaining the integrity of the EU and the Single Market.
- Estonia intends to launch negotiations on the definitive cross-border VAT system and modernise VAT for cross-border e-commerce in order to benefit small and medium-sized enterprises (SMEs), combat VAT fraud and ensure a level playing field between EU businesses and third-country businesses.
- Estonia intends to start a broad debate on the free movement of data and on measures to boost the data-driven economy. This includes pushing for the EU to end unjustified data location restrictions of non-personal data, achieve legal clarity on the ownership of non-personal data and ensure the reliable storage and exchange of data based on the 'once-only' principle in the public sector.
- The Estonian Presidency will focus further on the development of cross-border e-commerce, by calling for a stronger position in the geo-blocking Regulation to end unjustified geo-blocking in the Single Market. Additionally, the Presidency seeks to move forward with negotiations on a contract law package to ensure legal certainty and clarity for entrepreneurs and consumers engaged in cross-border trade.
- The Presidency will work towards an agreement in the Council of the European Union on a common EU list of non-cooperative tax jurisdictions, and whether to impose mandatory rules on financial intermediaries and advisers to disclose tax avoidance schemes.

With Brexit negotiations ongoing, it is expected that discussions on the withdrawal agreement will be the main focus of the negotiations during Estonia's Presidency, but the Estonian Government has **stated** that Brexit will not be one of its priorities. Kaja Tael, Permanent Representative of Estonia to the EU, acknowledged that Brexit would continue to be a hugely important issue for the EU, but that the Presidency would not intervene with the Commission's negotiating team, led by Michel Barnier, in Brexit negotiations.

The proposal will now be submitted to the European Parliament and the Council for consideration. It is expected that approximately two years after the Regulation's entry into force that the first providers will start offering PEPPs on the market. The Commission will then evaluate the effects of the Regulation five years after its entry into force.

European Commission launches PEPP proposal

On 29 June, the European Commission launched its proposal for a **pan-European Personal Pension Product (PEPP)**. The proposal sets out a framework for a new type of voluntary personal pension which is designed to provide greater choice to savers when putting money aside for old age and establishing a more developed pension market, which would contribute significantly to the objectives of the Capital Markets Union (CMU).

Background:

In September 2015, the Commission released the CMU Action Plan comprising a list of 33 action points to be carried out by 2019, one of which was to explore ways to increase choices for retirement saving and build an EU market for personal private pensions which pension providers could opt for when offering private pensions across the EU.

Between July and October 2016, the Commission carried out a **public consultation** on a potential EU framework to support a wider choice of personal pensions competing across borders. The responses to this consultation indicated that there was strong interest in the introduction of a simple, transparent and cost-effective EU personal pension product, from both consumers and financial service providers.

Latest Developments:

The proposal sets out a framework which will enable pension providers to offer PEPPs, which are designed to be simple, cost-effective and portable across different Member States. They will complement existing state-based, occupational and national personal pensions, but not replace or harmonise national pension regimes.

The framework will ensure that PEPPs follow the same set of standard features, wherever they are sold in the EU, and can be offered by a broad range of service providers, such as insurance companies, banks, occupational pension funds, investment firms and asset managers. PEPP providers will also be required to issue a Key Information Document (KID) prior to purchase, which will disclose the cost structure of the product, the risks and rewards of the different investment options available and the overall investment strategy.

To protect financial interests of savers, every PEPP must include a lower-risk default investment option with mandatory risk mitigating techniques and the number of investment options should be limited to five at most to facilitate savers' choice. Providers also have to ensure that PEPP savers are sufficiently informed and advised about the product. The PEPP Regulation does not set out any mandatory investment requirements for pension providers.

The main benefits for savers will be:

- **More saving options:** PEPP savers will be able to choose from up to five savings options, and will be able to switch to another savings option once every five years, with a capped cost;
- **Portable anywhere within the EU:** PEPP savers will be able to continue contributing to their PEPP when moving to another Member State;
- **Easier to switch providers:** the PEPP framework includes the right for PEPP savers to switch providers, with a cap on switching costs;
- **Detailed and transparent information:** all information on the fees, costs and investment strategy is provided in a KID; and
- **Cost effective:** PEPPs will allow pension providers to reduce costs by pooling assets of the larger EU market and making use of online distribution options, enabling them to offer cheaper products to consumers.

The European Insurance and Occupational Pensions Authority (EIOPA) will be in charge of authorising whether a pension product meets the conditions of the PEPP framework and will also maintain a central register for PEPPs across the EU, but national supervisory authorities will remain in charge of supervising PEPP providers. The proposal for the PEPP is also accompanied by a Recommendation from the Commission which encourages Member States to grant the same tax treatment to PEPPs as is currently granted to similar existing national products, even if the PEPP does not fully comply with all the national criteria for tax relief.

Announcing the proposal, Commission Vice-President Valdis Dombrovskis described how creating a market for PEPPs could be an important milestone in creating the CMU and said he was confident that the PEPP label would foster long-term investment in capital markets. EU personal pension providers currently hold €700 billion of assets which is expected to rise to €1.4 trillion by 2030 without the PEPP. According to the Commission, the market potential of the PEPP is significant for pension providers, with estimates that the PEPP could double the growth of the personal pension market, reaching €2.1 trillion by 2030.

Next steps:

The proposal will now be submitted to the European Parliament and the Council for consideration. It is expected that approximately two years after the Regulation’s entry into force that the first providers will start offering PEPPs on the market. The Commission will then evaluate the effects of the Regulation five years after its entry into force.

In other news

- The College of Commissioners held a **meeting** in Tallinn in preparation for the beginning of Estonia's Presidency of the Council of the EU on July 1
- ECB proposes **amending** its statute to provide legal basis for Eurosystem to carry out role as central bank of issue under currently proposed review of EMIR
- The ECON Committee published a **report** on the implications of Brexit on EU financial services
- The Council has **published** a compromise text, with a view to reaching an agreement, on STS Securitisation
- The Commission **fines** Google €2.42 billion for breaching EU antitrust rules
- The Commission has **published** a report on the assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities
- The Council has **published** a compromise text, with a view to reaching an agreement, on amending the CRR
- The College of Commissioners held a **debate** on the future of EU finances, discusses latest State aid and antitrust decisions, trade with Japan and recent cyber attacks
- The Commission **published** a report on the rise of Protectionism
- Rules adopted in 2015 on cross-border insolvency proceedings **enter** into force
- The Council **agrees** its negotiating stance on controls on cash entering and leaving the EU
- The Council has **called** for simpler rules for the beneficiaries and administrators of EU funds
- Commission Vice-President Jyrki Katainen delivers the keynote **speech** at the Retail Banking Conference
- Commissioner Pierre Moscovici **speaks** at the Commission's Tax Fairness Conference

- The EBA has **published** a report presenting the conclusions of its assessment on the topic of innovative uses of consumer data by financial institutions

Upcoming EU Institutions events and consultations

3 July: Deadline for responses to ESMA **consultation** on the update of the guidelines on the application of the endorsement regime under Article 4(3) of the CRA Regulation
11 July: Deadline for responses to EBA **consultation** on draft RTS on the implementation of group wide AML-CFT policies in third countries
19 July: Deadline for responses to Commission **consultation** on reducing barriers to cross-border distribution of investment funds
31 July: Deadline for responses to ESMA **consultation** on trading obligation for derivatives under MiFIR
7 August: Deadline for responses to ESMA **consultation** on Draft technical advice, implementing technical standards and guidelines under the MMF Regulation
8 August: Deadline for responses to EBA **consultation** on RTS on Simplified Obligations
18 August: Deadline for responses to EBA **consultation** on recommendations on outsourcing to cloud service providers
21 August: Deadline for responses to PRA **consultation** on compliance with the EBA's Guidelines on disclosure: Composition of collateral for exposures to counterparty credit risk
24 August: Deadline for responses to **consultation** on guidelines on CCPs' conflict of interest management
22 September: Deadline for responses to EBA **Discussion** on the treatment of structural FX under Article 352(2) of the CRR

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 Adviser
+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
sarah.murray@cityoflondon.gov.uk

Audrey Nelson
Senior European Regulatory Affairs Adviser
audrey.nelson@cityoflondon.gov.uk

Corinna Williams
European Regulatory Affairs Adviser
corinna.williams@cityoflondon.gov.uk

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