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Regulation & Recovery: EU Financial Services In The Wake Of Covid-19 & Brexit

Webinar

Thursday 10 Sep 2020





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A Word From Today's Chairman



**Professor Michael
Mainelli**

Executive Chairman

Z/Yen Group

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Agenda

- 10:00 – 10:05 Chairman's Introduction
- 10:05 – 10:30 Keynote Address
- 10:30 – 10:45 Questions & Answers



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Regulation & Recovery:
EU Financial Services In
The Wake Of Covid-19
& Brexit



Dr David P Doyle

EU Regulatory Policy
Advisor

Regulation & Recovery: EU Financial Services in the Wake Of Covid-19 & Brexit

Thursday, 10 September 2020





▶ €390bn in grants

▶ €360bn in loans

Recovery and Resilience Facility

- ▶ €560b in grants and loans
- ▶ EU States to prepare national recovery and resilience plans
- ▶ Funding linked to climate and energy plans (25%)
- ▶ Funds to healthcare entities, companies via national agencies
- ▶ Employment subsidies, youth employment, short-term work schemes
- ▶ Liquidity and solvency to SMEs

Solvency Support Instrument

- ▶ Temporary injection of equity into companies across ALL sectors (not retained)
- ▶ EU budget guarantee to EIB to mobilize private capital via financial intermediaries, i.e., independently managed funds or Special Purpose Vehicles

Strategic Investment Facility

- ▶ Develop strong and independent value chains: infrastructure, IT, healthcare, digital transition
- ▶ EU budget guarantee to finance investment projects via EIB, national banks

▶ EC to raise funds on capital markets, repayable over 29 years

▶ New funding: 0.2% tax on large company turnover, digital tax, plastics tax, carbon border tax etc

- ▶ To be bolted on to the **EU Multiannual Financial Framework**: €1.1t budget over 2021–2027 — re-allocation of budget to targeted recovery and support of the EU economy: companies, regions, sovereigns

◆ Brexit and equivalence – *Quō vādīs?*



- **The deadline to complete the UK/EU respective equivalence assessments did not materialize: end June 2020**
- ▶ Brussels :the UK will “**progressively**” **diverge** form the EU rules in financial services, but equally on environment, employment, state-aid...
- ▶ EU revised **equivalence assessment** re-built around a “forward-looking model, i.e., **interconnectedness** with the UK, protecting financial stability, investor protection etc.
- ▶ The EU equivalence regime: the only legal instrument available for a third-country to provide services. But **the EU’s 3rd-country equivalence regime is not comprehensive. Some areas not covered:** bank lending and deposit-taking. **Areas covered:** Derivatives clearing (CCPs under EMIR), trading and transparency on securities financing transactions + reuse

Equivalence developments:

- EC to extend the Temporary Equivalence decision for UK CCP’s beyond end 2020 for limited period, to allow EEA counterparties to continue accessing UK-based CCPs.
- Equivalence decision for 3rd country investment firms (under the IFR regime) doubtful from January 2021



- ◆ Phase-out of paper-based **electronic investor communications**, with retail investors allowed to opt-in for paper information.
- ◆ Exemption from **cost and charges disclosure** for ECPs and professional investors (ancillary services, costs of advice and financial instruments, including 3rd-party payments) – but not cover investment advice and portfolio management, nor retail investors.
- ◆ For ‘**distance communication**’, option for all investors (professional & retail) on ex-post delivery of costs and charges’ disclosures.
- ◆ **Periodic loss reports** - triggered by 10% portfolio losses - dis-applied for ECPs and professional clients (with opt-in), but retained for retail clients on a biannual rather than quarterly basis.

- More flexibility for ‘non-complex products’ in MiFID product governance rules – for simple corporate bonds with make-whole clauses (MXC’s)
- Removing unbundling rules for research/trading commissions for small and mid-cap issuers, i.e., SMEs with market capitalisation of up to €1bn ...

- Suspend best execution reports, pending 2022 full MiFID assessment on value of these reports.
- Targeted exemption of a priori cost-analysis in the case of product « switching » for professional clients.



- ❑ **Market illiquidity** and implications for asset managers and insurers
- ❑ Investment funds with significant exposures to **corporate debt**
- ❑ Investment funds with exposures to **real estate**
- ❑ Impact of large-scale **downgrades of corporate bonds** on markets and entities across the financial system
- More timely use of **liquidity management tools** (stress tests: ESMA), especially from margin calls,
- Suspend/restrain **dividend payments, share buybacks and other pay-outs**
- Monitor **AIF leverage** (more assertive NCA role: ESMA)



Covid-19 – a boost to the EU sustainability finance action plan...

Disclosure Regulation

Applies from March 2021

- Introduces 3 new sustainability concepts:
 - Sustainable Investment – contributes/does not harm ESG
 - Sustainability Risk – ESG events impacting negatively on the asset value
 - Sustainability Factors – i.e., human rights, anti-corruption, AML compliance

Framework (Taxonomy) Regulation

- 1st phase applies end Q4 2021
- 2nd phase applies end Q4 2022

- Focuses exclusively on environment, i.e., how much of your bank's equity portfolio is Taxonomy-aligned?
- Disclose to what environmental objective(s) the bank's investments contribute?
- Provide short negative disclosure in financial products which are not aligned with Taxonomy

Suitability Delegated Regulation

Awaiting Council approval

- Introduces questions via the banks' suitability assessment to help identify the client's investment objectives, including ESG preferences.

Integration of sustainability factors into UCITs, AIFMD, MiFID II, SII, IDD

Level 2 measures published June 2020

- Introduces, via Delegates Acts, requirements: organisations, operating conditions & risk management policy and product governance

Thank you !

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QUESTIONS & DISCUSSION, ANSWERS?



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- 15 September 2020 (16:00) [Leadership Of Self - An Introduction To Mindfulness & Inner Resilience For New Modes Of Working](#)
- 16 September 2020 (12:00) [FSG Anti-Money Laundering \(AML\) Task Force: AML Tech - Regulatory Tickbox Or Great Experience?](#)
- 17 September 2020 (12:00) [Employment-Related Securities: The Complexity Unravelled Into Practical Application](#)

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