

Professor Danuta Hübner, European Parliament

“COVID-19 and Brexit: A holistic approach towards the recovery”

“The Recovery Plan for Europe: what is in for financial services?” with Sean Berrigan (Director General, DG FISMA) and representatives from the financial services industry

Hosted by Prof. Danuta Hübner

European Parliament, July 10, 2020

Our debate has confirmed that achieving successful recovery and resilience of the economy requires a strong role of market based funding. Over the last months, the EP as legislators worked on a series of quick fixes in existing legislation to facilitate liquidity flows but the real challenge is to move forward with building capital markets. Jobs creation, which is already and will be even more critical, will not come without private investment that has to be financed.

This is a multidimensional process, involving the whole spectrum of our economy. We have tried here to bring together issues that belong normally to separate debates. That gave us an opportunity to move beyond the silos approach and reconcile approaches. The overwhelming nature of this crisis demands a holistic approach. There is a value added in looking at a bigger picture.

I would like in this context to raise one more issue, which surprisingly did not emerge during the discussion. I think of Brexit. As we dedicated some time to reflect on Capital Markets Union – all of you raised some aspects of this key issue - it is worth reminding ourselves that a big capital market will leave the EU as of 1 January. We have decided, following to a certain extent market developments, to invest in a multipolar capital market with specialized hubs in Frankfurt, Paris, Amsterdam, Dublin, Luxembourg. There seems to consolidate some sort of specialization among the centers. I hope we will manage to avoid the negative elements of fragmentation and avoid at the same time a regulatory arbitrage. There is still a big task of reducing existing national options and discretions. Nearly all of you mentioned the review of Solvency II and its modification. Possibility of starting the harmonization of national laws piece by piece also featured in our discussions. As well as strengthening of centralized supervision.

Nevertheless, I am mentioning Brexit in the context of the fact that UK becoming a third country implicates the need of preparedness.

The European Commission has just issued a new communication on getting ready for changes. There is a small part dedicated to financial sector. I know that financial sector has been investing in preparing for a no deal scenario but we managed to get the withdrawal Agreement. Now there is a new risk of a lack of agreement on the future relationship, lack of equivalence decisions and, in general, even with agreement and timely equivalence decisions there are changes related to the fact that UK indeed becomes a third country.

Where there is no equivalence, like commercial banking, deposit taking or insurance, national requirements for third countries will apply. The passports issued by UK as a member state will not be valid anymore. Provisions of services from UK to the EU will be subject to relevant third country rules of individual member states. For this the industry will have to be prepared. The EU financial services providers operating in UK will have to respect UK rules.

In some EU legal acts there are equivalence frameworks envisaged. It is a rather limited number of areas where equivalence will allow British firms to provide services to the EU clients. It is the CSDs, CCPs, also mid next year there will an enhanced

equivalence framework for investment firms. However, equivalence is a unilateral decision, that is not negotiated, and which can be withdrawn. We are still awaiting responses from UK to our 28 equivalence questionnaires sent to UK, for which the Commission received only four responses. CCPs of derivatives seem to be an area of the highest potential risk to stability. So let me finish by underlying the need for insurance operators, banks, investment firms, trading venues and other financial services providers to spare no effort to be prepared by the end of this year for all possible scenarios which will lead to UK becoming a third country.

At the same time as COVID-19 creates a greater need for more integrated capital markets, Brexit is bringing new concepts into our thinking, forcing us to address what its capital markets should look like and how to get them there.

London will soon be gone, and our capital markets cannot and will not be a replica of one big global center. It will be a decentralized CMU. We can see already now some specialization between Dublin and Luxembourg, but also in Paris and Frankfurt and Amsterdam.

We have to make sure to avoid fragmentation and regulatory arbitrage. It is therefore important to increase trust among Member States, and reduce – or terminate national option and discretions.

How can Europe come out from Brexit stronger if it continues to put up national barriers while new cross-border supervisory structures emerge. Eventually, moving towards more centralised oversight may be required in a number of financial sectors.

COVID-19 and Brexit, force us to face long standing questions and give us an opportunity to reshape our cooperation and our financial infrastructure, to better serve the EU economy.