AmCham EU
SPEAKING FOR AMERICAN BUSINESS IN EUROPE

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Priorities – Financial Services

The recent 2014-2019 legislature has seen a tightening of the way Europe deals with third-country firms accessing the Single Market for financial services. Much of this has been largely driven by Brexit. A notable example is the revisions to the European Markets Infrastructure Regulation (EMIR), empowering EU authorities to force relocation of systemically important clearing services inside the EU. Yet, Europe should remain open to third-country investment, as this is a source of growth, jobs and competitiveness. The next legislature, 2019-2024, will be a defining phase in the EU's evolving approach to third-country firms. Policy-makers need to find the right balance between:

1. Developing adequate oversight and controls that manage risks to financial stability and protect investors; and
2. Strengthening the attractiveness and integration of Europe's financial market, including as a destination for third-country firms, requiring open borders for capital and services to flow.

Openness of EU markets

ISSUE

Open, well-functioning and appropriately regulated transatlantic capital markets are a crucial driver of long-term economic growth and competitiveness in Europe. Aggregate US investment in Europe totalled more than €2 trillion in 2018, directly supports more than 4.8 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

The recent uncertainty of Brexit may mean an inevitable fragmentation of financial markets, bringing risks to financial stability and increased costs for investors and issuers. Open markets are inextricably linked to Europe's ambition to becoming more globally competitive. Therefore, as EU policy-makers consider the future supervisory and regulatory framework for third-country market access, we would propose the following recommendations.

RECOMMENDATION

- **Increased transparency and predictability** around the equivalence process. This should include greater certainty over the determination and withdrawal of equivalence; and
- **Mutual deference to one another's regulatory and supervisory regime**, wherever possible, should become the preferred approach, supplemented by adequate cooperation and exchange of information agreements that can further foster trust.

Open, innovative and sustainable Capital Markets Union

ISSUE

AmCham EU supports efforts to complete the Single Market for financial services, including the Capital Markets Union (CMU) agenda. While Brexit may create additional market fragmentation, which will increase obstacles to cross-border investments and efficient capital allocation. We strongly believe that the CMU needs to remain a priority for the next Commission, with renewed focus on the creation of open, innovative and sustainable financial markets.

RECOMMENDATION

- Already legislated initiatives (eg, securitisation, prospectus, venture capital) should be assessed for purpose in terms of delivering on the objectives of **developing market-based funding channels and unlocking access to finance** for small and medium-sized enterprises (SMEs) and infrastructure projects;
- Ongoing and future initiatives should strive to **avoid fragmentation of global liquidity pools**. The approach to market access should not be driven by localisation agendas (eg, based on currency or assets under management, or via restrictions on delegation and outsourcing), nor should they systematically impose stringent wide-reaching conditionalities (eg, based on perceived risks to financial stability or of inadequate financial crime frameworks);

- Concrete follow-ups should emerge from the Commission's FinTech Action Plan and Europe's approach to technology neutrality (eg, vis à vis scaling up of FinTechs and clarification on the treatment of digital assets). **A balance needs to be maintained between encouraging innovation** (eg, in payments) **and creating level playing field conditions** for fair competition; and
- **Better leverage private capital to meet EU climate and sustainability goals** in the Commission's Sustainable Finance Action Plan. In line with the principles of the CMU, we recommend that initiatives take an open, flexible and outward-looking approach to ensure equal and non-discriminatory access for third-country financial institutions.

Complete and strengthen the Banking Union

ISSUE

AmCham EU is a long-standing supporter of European rules aimed at strengthening financial stability via improvements to prudential requirements, as well as to recovery and resolution mechanisms. Looking ahead to the next Commission's agenda, we believe that the overarching priorities of the EU in the field of prudential regulation should be to complete the Banking Union, to ensure a globally consistent implementation of international banking standard (Basel framework) and to avoid fragmentation and localised ring-fencing requirements. We look forward to contributing to the Commission's forthcoming consultation to implement the remaining parts of the Basel framework in European law.

RECOMMENDATION

- An **EU liquidity backstop mechanism is still urgently needed** to prevent contagion of future resolution situations inside the Banking Union and the development of potential future systemic crises. The Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) have already helped in managing the first bank liquidations/resolutions in Italy and Portugal;
- **Divergences and inconsistencies in the implementation of the Basel standards should be avoided**, as they can distort competition and lead to the misallocation of capital in the financial system, to the detriment of overall growth. AmCham EU encourages EU policy-makers to implement the rest of the Basel package, including the outstanding Fundamental Review of the Trading Book (FRTB) capital standards, without significant divergence from the hard-won global agreement and in order to strengthen the existing Banking Union framework; and
- European policy-makers should further **promote free flows of capital and liquidity** by avoiding regulation that increases fragmentation and ring-fencing of capital and liquidity, or prevents cross-border groups from managing them centrally. At the heart of banks' ability to service their global customer base and support the European economy is its ability to allocate capital and liquidity where it is most needed.