

Gratwanderungen EU-Politik nach Brexit und US-Wahlen

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ZFA-Jahresauftakt
Jänner 2021

A balancing act - EU politics in response to Brexit and US elections

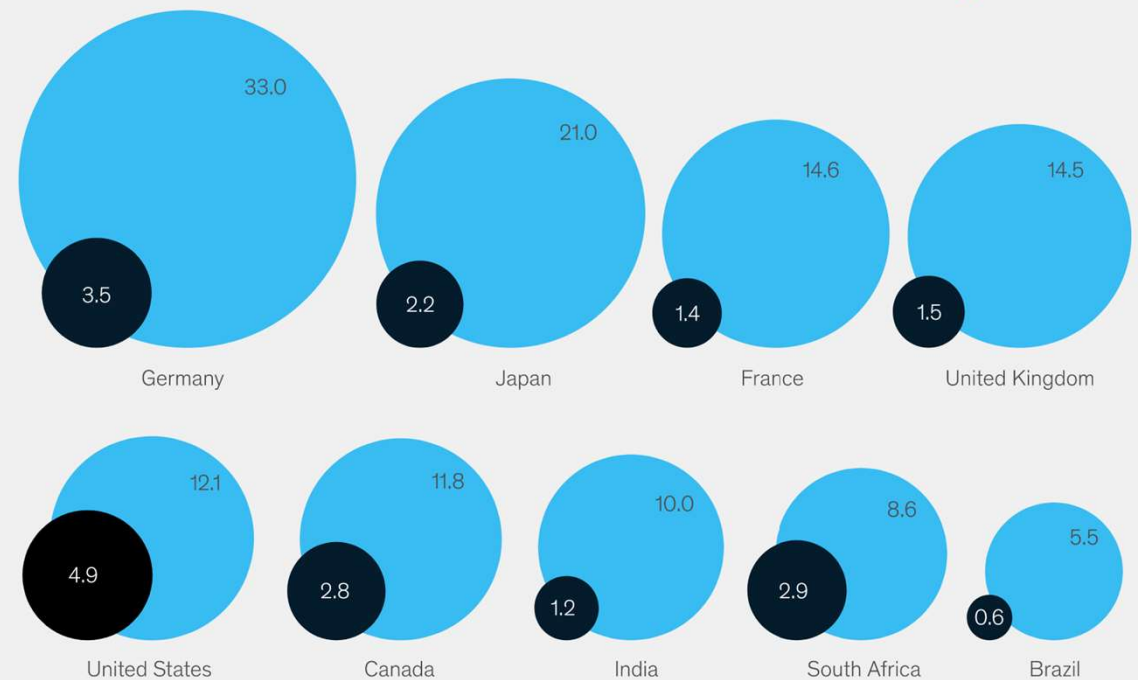


The 2021 environment - Politics on a mountain of cash

2008 financial crisis support vs COVID relief

Economic-stimulus crisis response, % of GDP¹

● 2008 financial crisis² ● COVID-19 crisis



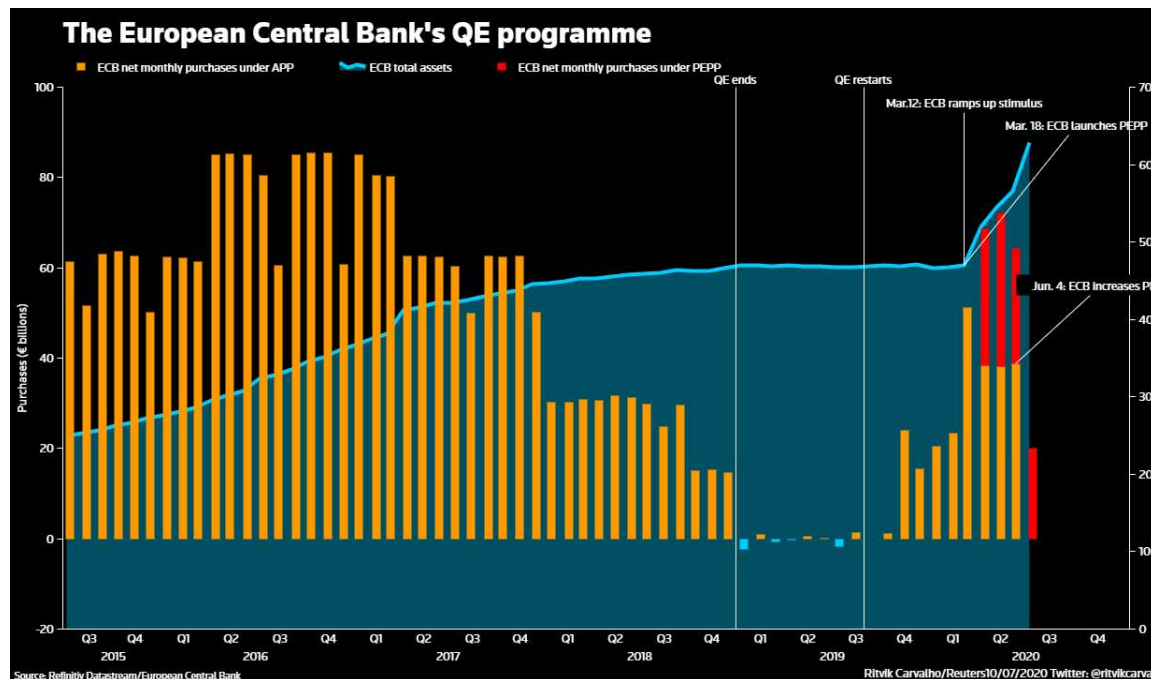
¹2019 GDP taken into account for values related to COVID-19 crisis.

²Data published by International Monetary Fund in March 2009; includes discretionary measures announced for 2008–10.

Source: *Global economic policies and prospects*, International Monetary Fund (IMF), March 2009, imf.org; government sources; IHS Markit; IMF; press search; *The state of public finances: Outlook and medium-term policies after the 2008 crisis*, IMF, March 2009, imf.org

Source: McKinsey, 2021 Outlook

ECB Pandemic Emergency Purchase Program





- Entire PEPP envelope: 1.35bn EUR
- Eurobonds so far only 10pc of public bonds acquired under QE and PEPP
- PEPP adds to 750bn Eurobonds to be issued by EU as part of EU COVID relief

European Union NGEU+ Multi-Annual Financial Framework (MFF) 2021-2027

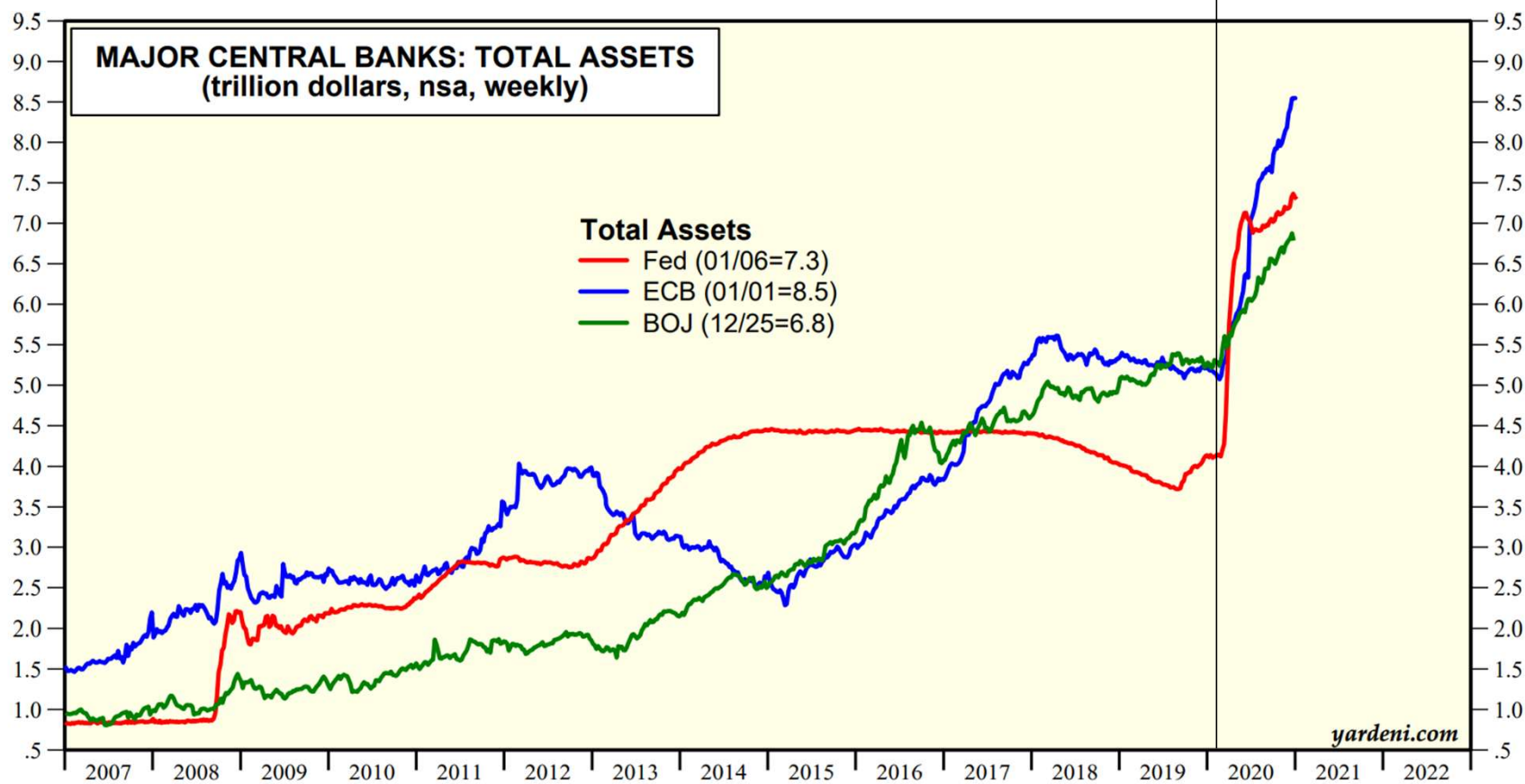
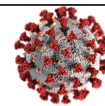
Main issue – will the additional COVID relief funding (NGEU) remain temporary or become a permanent budget part?

Long-term budget for 2021-2027 of **€1.074 trillion** combined with the temporary recovery instrument, NextGenerationEU, of **€750 billion**;

Grants	390.0
<i>of which provisioning for guarantees</i> 	5.6
Loans 	360.0
TOTAL	750.0

	NGEU	Total with MFF
Recovery and Resilience Facility	672.5	673.3
<i>Of which GRANTS</i>	312.5	313.3
<i>Of which LOANS</i> 	360.0	360.0
REACT-EU	47.5	47.5
Rural development	7.5	85.4
Just Transition Fund	10.0	17.5
InvestEU 	5.6	8.4
rescEU	1.9	3.0
Horizon Europe	5.0	80.9

FED, ECB, BoJ balance sheets



Source: Haver Analytics.

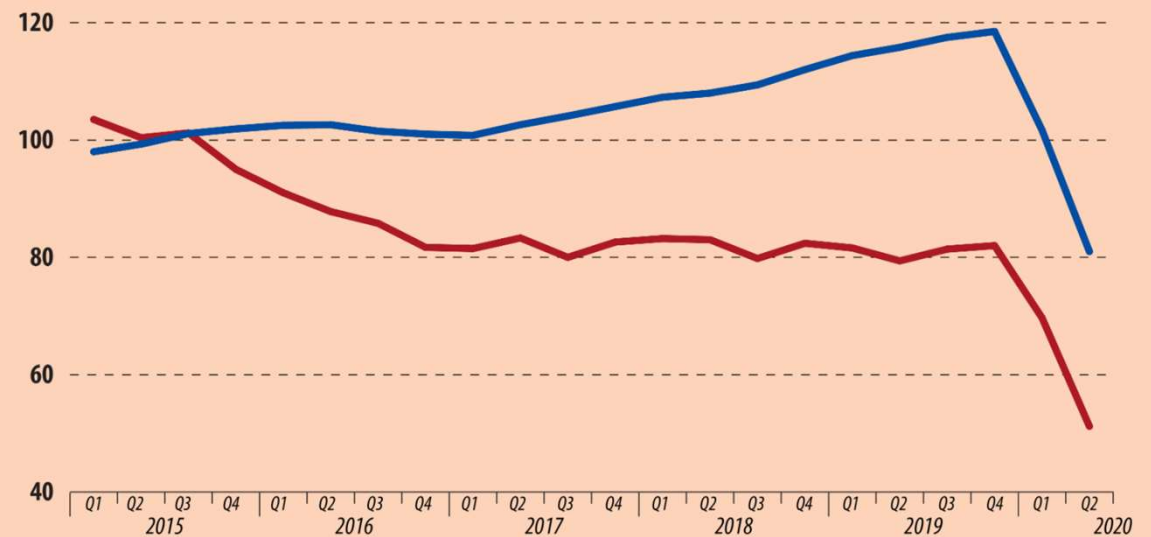
“Governments can print as much money as they want, they cannot control where the money goes.”



Ruchir Sharma,
Global Chief of Strategy, JP Morgan, 21 Jan 2021

Impact on economy (and bank balance sheets)

Registrations of businesses and declarations of bankruptcies in the EU*
Q1 2015 - Q2 2020, seasonally adjusted
(2015=100)



*EU (available countries)

A look outside

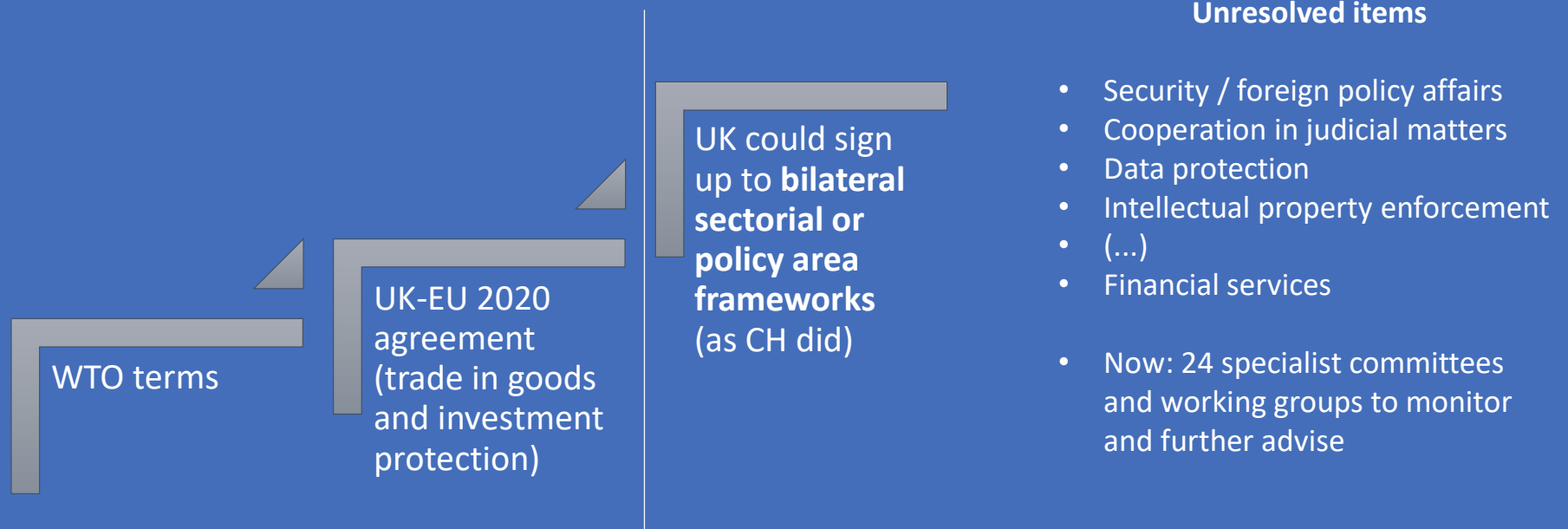
BREXIT- them
and us



Status and prospects

- UK became again a third country on 01 January 2021
- New “trade and cooperation agreement” ([link](#)) covers trade in goods, energy, environmental policy and investment protection
- **Does not apply to services**
- Main tool for allowing cross-area business activity in service sector: (mutual) **equivalence decisions**
- EU-UK resembles EU-Switzerland relation in 1972 situation (EU-CH free trade deal)

Divorced ... but looking for a roof



On equivalence

- Original purpose: ensuring **technical adequacy** of service provision (operational standards, regulatory coverage and compliance level)
- No legal framework, hence full discretion (conditionalities and time-wise limitations, fully or partially revocable at any moment), not covered by WTO MFN principle
- Consequence **in practice: equivalence is a key trade policy tool** (“weapon”), even linked to foreign policy
- Financial services: **only** UK-based derivatives clearing and settlement recognised as equivalent in September 2020 (however only granted for 18 months)
- [Link](#) to EU website listing equivalence decisions

Wall Street already wins BREXIT business

US benefits from 22 equivalence approvals (by EU of US regulation), including:

- Legal and supervisory framework (only for US, Mexico, Japan and HK)
- Audit framework
- “Adequacy of CAs” (regulatory scope, coverage depth and quality)
- Trading obligation for derivatives
- OTC derivatives clearing and settlement
- Prudential requirements for all major groups of financial market participants



New US president Joe Biden

- COVID and “rust-belt” focus may force Biden to continue parts of “MAGA” especially in trade policy (“Manufacturing in America”)
- **USD 1.9 trillion as second relief** package already announced (416bn as vaccination support)
- Extraterritoriality approach of US interventions (incl. financial sector) to be kept/intensified?
- **“Environmental justice”** a new key priority (extraterritoriality?)



Source Wall Street Journal

Incoming SEC chair Gary Gensler

MIT professor (focus DLT technology), ex-Goldman Sachs, Undersecretary of Treasury, CFTC chair (derivatives regulator) in Obama I government

Stronger interventionist stance expected

Reported **priorities** include:

- Crypto-asset regulation (products, market participants oversight, trading practices)
- Stronger enforcement of corporate risk disclosure, potentially including ESG (compliance) risks



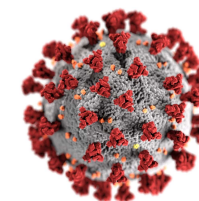
Areas of EU, transatlantic & UK cooperation



- COVID pandemic response
- COVID **monetary (relief) impact** management (central banks)
- **Green/sustainable transformation** of industry and society, including
 - ESG Taxonomy
 - Data reporting of NFC and financial institutions
 - Prudential standards for sustainable exposure on financial institutions balance sheets
- **Crypto-asset markets** screening, infrastructure building and ... interventions

On EU affairs

EU COVID impact relief measures



Budget upgrade	“EU Next Generation” (21/07) additional EU grant/loan facility (EUR 750bn)	Final
Prudential relief	“Banking package” (28/04) (selected accounting and prudential rule alleviations for financial institutions)	Adopted (published 26/06)
Capital Markets relief	“Capital Markets Recovery package” (24/07) (selected alleviations on prospectus and product governance rules)	Near to final EP and Council to approve still

New EU Commissioner for Financial Services



Mairead McGuinness

- Ireland
- Journalist
- MEP since 2004 (EPP, Conservatives)



Commissioner McGuinness - Political priorities

Completion Banking Union	Leading the work on completing the Banking Union, notably by finalising the common backstop to the Single Resolution Fund and agreeing on a European Deposit Insurance Scheme.
Fostering CMU	Expediting the work on the Capital Markets Union to diversify sources of finance for companies and tackle the barriers to the flow of capital.
IPO fund for SMEs	Developing a new private-public fund specialising in initial public offerings for small and medium enterprises.
FinTech Strategy	Proposing a FinTech Strategy to support new digital technologies in our financial system.
Green Finance/Deal	Developing further the green financing strategy to support the implementation of the European Green Deal.
Crypto-Assets	Ensuring a common approach with Member States on cryptocurrencies/assets.
Extraterritoriality	Securing Europe's resilience to extraterritorial sanctions by third countries, including by proper enforcement of sanctions imposed by the EU.



EU Capital Markets Union

(updated) CMU Action Plan (published 24/09 by EU Commission)

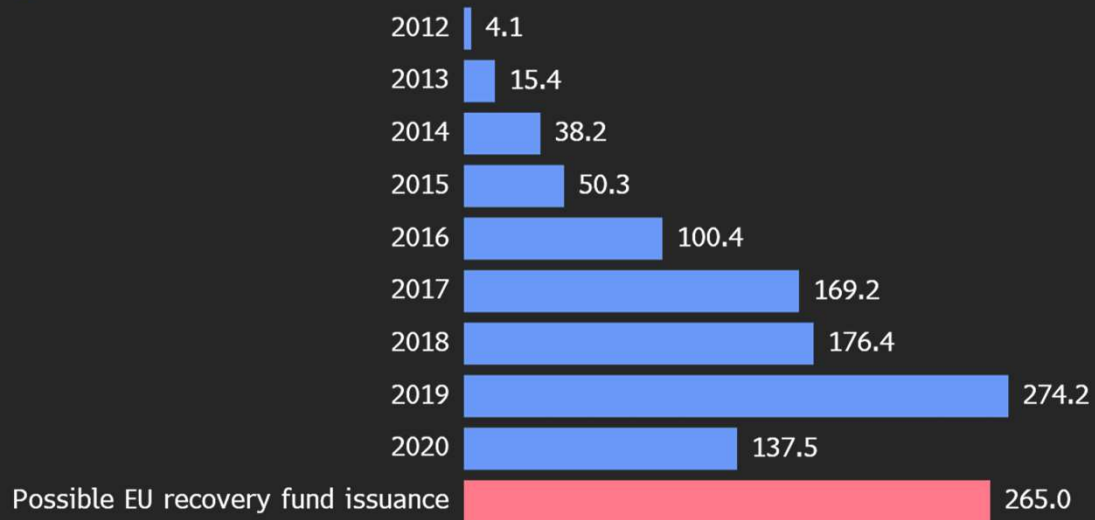


Selected initiatives and projects	What is it about	Timeline (for proposal) 
Action 1 (cross-border visibility)	Establishment of an EU-wide access point for company information (including ESG aspects) to retail & prof investors	Q3 2021
Action 8 (retail investor trust in CMs) - B	Review of investor categories retail/professional (incl. legislative proposal to amend MIFID II)	Q4 2021/Q1 2022
Action 8 (retail investor trust in CMs) - C	After positive impact assessment, proposal for introducing certification requirement on knowledge for financial advisers	Q4 2021 (impact assess) Q1 2023 (certification)
	Probing of a pan-European label for financial advisors	Q1 2022
Action 8 (retail investor trust in CMs) - A	Assessment of retail related inducement and disclosure rules, amendments could be proposed	Q1 2022
Action 10 (easing tax burden cross-border)	After positive impact assessment, proposal for common, standard system for withholding tax relief at source	Q4 2022

Green Bond Boom?

Issuance as part of EU recovery fund could bring major boost to market

■ Global green bond issuance



Source: BloombergNEF, S&P

USD billion

Bloomberg

ESG – a wide array of issues



Initiative	What is it about	What happens next
Non-Financial Reporting Directive (NFRD)	Disclosure rules on ESG aspects of activities of non-financial corporates	Already in force, review proposal of EU Commission expect in Q1 2021, specific delegated acts expected in 2021
Taxonomy Regulation	Rules for classifying a business activity as sustainable in environmental terms	Enforced, cross-referenced to NFDR
Sustainable Finance Disclosure Regulation (SFDR)	Product- and distribution policy -related disclosure rules on ESG aspects for financial markets participants (distributors), foresees two levels of “greenness” (not applicable to SPs)	Level 1 enforcement planned for March 2021, RTS to follow “later”
MIFID ESG target market (delegated regulation)	Specification of target market rules for investors voicing ESG preferences	Finalisation of delegated act expected in Q1 2021, relation with SFDR “greenness” levels highly contentious
EU Ecolabel (Regulation)	Product-specific self-declared adherence standard in line with taxonomy rules (UCITS funds only for now, but PRIIPs to be tested)	Regulation planned to be adopted in Q2 2021 but delay again possible

FinDatEx European ESG “Technical Working Group”

- **Draft working mandate** proposed to FinDatEx members early December, only positive feedback
- **Aim:** standardising ESG reporting requirements for data flow between issuers and distributors
- **Step 1:** Mapping out of ESG data reporting requirements and templates across various EU regulatory rulesets (MIFID, IDD, SFDR, ECOLABEL etc)
- **Step 2:** ensuring coherence of evolving template input definitions in line with regulatory progress

Digital Finance



Selected initiatives and projects	What is it about	Timeline
MiCA (regulation)	EU Regulation / Markets in Crypto-Assets (setting CA market framework conditions, incl. operating requirements for CA service providers, in scope: services and firms insofar as not covered by MIFID)	Proposal tabled by EU Commission (Oct 20)
DLT (Distributed Ledger Technology) pilot regime	EU Regulation / timewise limited operational license for running DLT (blockchain-) based trading and clearing & settlement infrastructures for crypto- and non-crypto-assets	Proposal tabled by EU Commission (Oct 20)
DORA	EU Regulation / Bundled and levelled ruleset for IT requirements in financial services in order to have the same level of data and operational security for activities/services with a comparable cyber risk	Proposal tabled by EU Commission (Oct 20)

Types of Crypto-Assets (“tokens”) - selection





2021
Ein Jahr voller
Erwartungen

2021
Expectations
run high.



Thanks for listening.
Questions/comments?