

Introductory statement of the Chairperson of  
the Joint Committee of the European  
Supervisory Authorities to the Committee on  
Economic and Monetary Affairs (ECON) of the  
European Parliament

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# Introductory statement by Andrea Enria, Chairperson of the Joint Committee of the European Supervisory Authorities

Brussels, 09 October 2017

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Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

Honourable Chair and Members of this Committee,

It is my pleasure to outline the achievements to date of the Joint Committee, which the EBA is chairing in 2017. In light of the ESAs Review which will be in the European Parliament shortly, I will also elaborate on good practices in the Joint Committee and I will provide you some more suggestions for the role and work of the Joint Committee going forward.

The Joint Committee has continued to work as a hub for coordination and exchange of information between the ESAs and with Commission and the European Systemic Risk Board (ESRB). Our regular discussions on market developments have allowed focusing our attention on emerging risks and the need for coordinated supervisory responses. In the latest issue of our **cross-sectoral Risk Report**, we singled out three main areas for supervisory concern: (i) the environment of political uncertainty and fragmentation, not at least in the light of the UK's

withdrawal from the EU; (ii) persistent valuation risk, also related to an uncertain outlook for yields; and (iii) the low profitability of financial institutions.

The three ESAs are discussing and coordinating their contributions to address regulatory and supervisory issues raised by the UK withdrawal from the EU, with a view to supporting consistent approaches and clear and convergent guidance to market participants. We are also stepping up our efforts to identify potential risks to financial stability, in particular in case negotiations were to end in a disorderly fashion, triggering disruptions to the legal framework for the provision of financial services, to the continuity of contracts between parties in the EU27 and the UK and effective oversight of cross border banking groups.

While the low interest environment persists, we cautioned about the potential effects of a sudden increase in yields on the solvency position of financial institutions, with significant portfolio reallocation, spill over into wider assets markets and potential mark-to-market losses for investors and reduction in net wealth of households.

The low profitability of banks and insurers remains a major challenge, notwithstanding recent improvements, with return of equity persistently below the cost of equity, suggesting further structural changes are needed in the sector.

**Consumer protection and financial innovation** are becoming more and more a central area of work for the Joint Committee. Our Consumers' Day, which this year took place in Prague, allows us to intensify our dialogue with key stakeholders, and especially representatives of consumers, and discuss priorities for the Joint Committee's work. Moving the event to new locations outside the seats of the three ESAs has enabled us to connect with a wider audience of stakeholders. We plan to build on this good experience and we hope we will continue benefiting from contributions to the discussions at this event from Members of this Committee.

As you are aware, we worked hard on the development of the Key Information Document under the PRIIPs Regulation and we have put forward a Technical Advice on PRIIPS with environmental and social objectives. Furthermore, the Joint Committee increasingly discussed future challenges and policy priorities arising from the use of new technologies in financial services. Two recent examples of our joint efforts are the discussion paper on big data and the final report on automation in financial advice.

The use of big data analytics and processes provides benefits by allowing the development of products tailored to the consumers' needs and a more granular evaluation of risks. There are however some risks for consumers as the increased personalisation made feasible by big data reduces the comparability of financial services and increases the room for discrimination, as some consumers could face limitations in their access to services or information, or be confronted with different conditions or prices based on the analysis of behavioural data.

As regards robo-advice, the ESAs' report notes that the replacement of human interactions with automated tools and systems may decrease the costs for consumers, increase their access to

advice and may entail additional revenue opportunities for the corporate side. At the same time, there is an unclear allocation of liabilities and consumers may face difficulties in understanding and processing the information provided. However, we concluded that, for now, existing EU law mitigates the risks we had identified and that therefore no additional requirements are needed.

The **fight against money laundering and terrorist financing** (AML/CFT) has been a key priority for the Joint Committee over the last year. In line with the mandates received, we published one joint draft RTS, two joint guidelines, one joint opinion and two joint consultation papers since the beginning of this year. Also, significant external events, such as the terror attacks in some Member States, the Laundromat case and allegations of large scale abuse of the financial system for tax evasion purposes in the Panama Papers scandal, called for a robust supervisory response. As the European Commission acknowledged in its June 2017 supranational risk assessment, the ESAs are increasingly pivotal in making that happen.

The development of common standards to foster the development of a consistent and effective AML/CFT regime across the EU is essential as money launderers and terrorists are adept at exploiting compliance weaknesses and regulatory inconsistencies within the Single Market. We cannot afford to let that continue. Our Risk Factors Guidelines are about creating a common understanding of the risk-based approach to AML/CFT, and how it should be applied. They provide guidance on the factors credit and financial institutions should consider when assessing the risk of ML and TF associated with individual business relationships, and set out how they should adjust their customer due diligence measures as a result of that risk assessment. Put simply, these guidelines provide credit and financial institutions with the tools they need to make informed, risk-based and proportionate decisions on the effective management of ML/TF risk and help competent authorities assess whether the ML/TF risk assessment and management systems and controls of EU credit and financial institutions are adequate.

Over the coming years, our main focus will be on the effective implementation of the joint guidelines. In particular, sufficient resources will have to be dedicated to the provision of much sought-after training to competent authorities: for example, an event on risk-based AML supervision organised by the JC in March 2017 attracted nearly 90 participants from competent authorities across all Member States and inspired the European Commission to trial a similar approach in respect of other obliged entities under the AMLD. We also need the right tools to take action where necessary to support the correct and consistent application of our standards. The changes proposed by the Commission in the ESAs' review will prove particularly useful in the AML/CFT area.

Another area of focus, resulting from our joint opinion on ML/TF risk and from the findings of our preliminary review of the Panama Papers, is the need to enhance the cooperation and information exchange between competent authorities. The proposed revisions to the AMLD are expected to bring much-needed legal certainty in this regard. The Joint Committee is already preparing to develop a common framework for co-operation in the supervision of cross-border operations of credit and financial institutions.

We strongly voiced our concerns on the decision of the Accounting Regulatory Committee (ARC) to expand the **temporary exemption from applying IFRS 9** to any insurance companies within



JOINT COMMITTEE OF THE EUROPEAN  
SUPERVISORY AUTHORITIES

financial conglomerates. Such step would generate opportunities for accounting arbitrage, an un-level playing field and a breach of fundamental principles in accounting, and would ultimately result in a lower degree of investor protection.

Finally, I would like to welcome the Commission's proposals on the ***review of the ESAs' founding regulations***. I understand that the Joint Committee's role would be expanded in the field of depositor, consumer and investor protection (art. 54 II). The ESAs strongly support an extension of the role and tasks of the Joint Committee. I would like to notice that the governance structure of the Committee is cumbersome, as any deliverable has to be approved by the three Boards at the same time. While this is suitable when the Joint Committee plays its role as a forum for exchange of information and strategic thinking, some adjustments aimed at improving the efficiency of decision-making might be considered if a stronger mandate is envisaged in the area of depositor, consumer and investor protection.

Thank you for your attention.