JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

JC 2016/52

26 September 2016

Written Statement by Gabriel Bernardino Chairman of the Joint Committee of the European Supervisory Authorities to the European Parliament's Economic and Monetary Affairs Committee

Dear Chairman,

Honourable Members of the Economic and Monetary Affairs Committee,

It is a great pleasure to be back at the European Parliament for our regular exchange of views.

In my role as the Joint Committee's (JC's) Chairman, I will outline in a nutshell our main achievements for the past year and our goals for the future. Afterwards, I will provide you with an insight on EIOPA's strategic objectives, potential future risks and challenges in the insurance and pensions sector and an outlook on the year to come. This I will complement, since I have the honour this year of being the European Systemic Risk Board (ESRB) Second Vice Chair, with an update on the ESRB's most recent activities.

This past year the JC has been coordinating and facilitating the work among the ESAs, focusing on consumer protection and on the assessment of relevant cross-sectoral risks in the European Union. Furthermore, we have developed the Single Rulebook further through beneficial cooperation across the banking, insurance and securities sector.

One notable milestone was the delivery of the draft Regulatory Technical Standards (RTS) on **Key Information Documents (KID)** for **Packaged Retail and Insurance-based Investment Products (PRIIPs)**, despite relatively tight deadlines.

This pioneering work demonstrates how the three Authorities managed to transform high-level European Union legislative principles into a set of practical cross-sectoral rules, based on extensive public consultation, including consumer testing by the European Commission. As a result, we proposed a 3-page document that for the first time should provide retail investors with simple and comparable information on costs, risks and performance on investment products in the banking, insurance and securities sector. Again, this is a major step forward for consumers and we are proud of the work done in this area.

We understand the concerns raised by the European Parliament in its plenary vote and believe that the work developed by the JC on the guidance for the implementation of the KID can be great help to adjust and clarify some provisions of the RTS in order to overcome these concerns. I am confident that a robust and pragmatic solution will be found soon. It is in our common interest – and especially in the interest of

European citizens - that we work together in order to make the KID a reality. In this respect, the JC will continue to support the European Institutions with its technical expertise.

The JC submitted the draft Implementing Technical Standard (ITS) on **External Credit Assessment Institutions** (ECAIs) under the Capital Requirements Regulation (CRR) and the Solvency II Directive in order to ensure the consistent application of the assessment of credit rating agencies across the financial sectors. Whilst the European Commission proposed to loosen the requirements for small and newly established ECAIs, we disagreed and rejected these amendments. In essence, the JC believes that the initial draft ITS represents a good balance of prudential objectives and at the same time sufficiently promotes market competition for the credit rating industry.

The JC submitted to the European Commission for endorsement the draft Regulatory Technical Standards (RTS) on **risk mitigation techniques for OTC derivatives not cleared by central counterparty (CCP)** under the European Market Infrastructure Regulation (EMIR), which establishes provisions aimed at increasing the transparency and safety of the OTC derivatives market in the EU. The ESAs recently disagreed with some of the amendments proposed by the European Commission. In particular, the ESAs oppose the European Commission's proposal to remove concentration limits on initial margins for pension schemes and emphasise that these are crucial for mitigating potential risks pension funds and their counterparties might be exposed to. Also, we expressed our concerns about the delay of the endorsement of the draft RTS.

In view of developing technical standards, it is important to have a sound coordination and cooperation of all parties involved. This should include not only a timely delivery by the ESAs but also a timely endorsement procedure.

As regards the **cross-sectoral risk assessment**, the JC continued its key role in monitoring and assessing cross-sectoral risk. We publish **biannual reports on the risks and vulnerabilities in the EU financial system,** which focus on providing depositors, retail investors, consumers, as well as industry itself with an overview of challenges and uncertainties in the markets which they should be aware of. The latest report focused on recent developments concerning the low growth and low yield environment and their potential effects on financial institutions' profitability and asset quality. We also highlighted concerns related to the interconnectedness in the EU financial system. However, the EU financial system is vulnerable to more immediate risks such as the result of the UK referendum on EU membership which has added political and legal uncertainties to those already affecting the financial system.

Furthermore, the JC continued its work in support of the evaluation of the **Financial Conglomerates Directive** as part of the Commission's Regulatory Fitness and Performance programme by providing input to the Commission's public consultation. Overall, additional layers of supervision need to be avoided where the sectoral legislative framework already addresses the types of risks that may arise in such a financial group.

With the adoption of the **Fourth Anti-Money Laundering Directive (AMLD)** and with the Commission's proposal to make further amendments, the JC's work is at a crucial point. The JC will publish its proposed Joint Guidelines to create a common understanding, across the EU, for financial institutions and competent authorities alike, when countering the risk of money laundering and terrorist financing.

Talking about successful cooperation, I am proud to mention our 4th annual **Joint ESAs Consumer Day,** which took place on 16 September in Paris. This continues to be an excellent platform for all stakeholders to engage actively and to bring attention to the most pressing matters, which this year covered topics such as the functioning of the internal market, big data and the supervision of consumer protection requirements in the EU.

The JC also launched a Website which will help present and promote our activities in a transparent way– see link: https://esas-joint-committee.europa.eu/

Conclusion

Looking forward, Consumer Protection will continue to be at the centre of our work. In particular, given that digitalization is accelerating in financial services, the ESAs have already started to look into cross-sectoral phenomena like greater use of "**Big Data**", and 'automation in financial advice', or 'robo-advice'. Institutions are gaining greater insights into their operations, customers and market opportunities from the breadth and depth of data available to them. We will examine the opportunities and challenges for consumers related to industry's use of such data, and consider what role the JC can play in tackling any issues identified. Furthermore, the JC will later this year publish its findings on the phenomenon of 'robo-advice'.

The ESAs will continue to put all our efforts to fulfil the mandate given to us by the co-legislators. The JC is committed, both at a micro- and macro prudential level, to provide strong and streamlined feedback, which is required by the challenging economic environment. We are also looking into possibilities to further enhance monitoring of financial industries.

With regards to promoting supervisory convergence, the ESAs will continue to deploy all the tools available. In particular, it is relevant to highlight the important role played by Guidelines and Q&As, which proved to be very useful in the past. It goes without saying that these instruments will only be applied by the ESAs when needed, while fully respecting Level 1.

In this spirit, good and transparent cooperation based on mutual trust between the Economic and Monetary Affairs Committee and all three ESAs is essential and key. We are looking forward to a continued constructive, trustful and transparent cooperation.