JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

14 October 2021

Statement by José Manuel Campa, Interim Chair of the Joint Committee of the European Supervisory Authorities (EBA, EIOPA and ESMA) to the European Parliament's Economic and Monetary Affairs Committee

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

Honourable Chair, honourable Members of the European Parliament,

It is an honour to speak to you on the Joint Committee's main work and achievements since last October. I am presenting you the Joint Committee work for the second time in a row but this year as the interim JC Chair. I took over this role in April 2021 until the incoming ESMA Chair candidate takes on her position.

Cross-sectoral risk assessment

Let me start with the cross-sectoral risk assessment.

I am glad that this ECON hearing takes place in a situation of improving health conditions and lifting of COVID-19 virus containment measures. However, economic uncertainties remain across the banking, and insurance sectors as well as in financial markets. As Joint Committee, we have presented the first comprehensive cross-sectoral risk assessment in March 2021 followed by another joint risk assessment in September 2021. Many of those findings remain pertinent today and should inspire regulatory and supervisory action going forward. I would highlight two observations from that report.

First, as we are exiting the COVID-19 pandemic, the financial system has become even more interconnected. In addition, the exceptional measures implemented during the pandemic have created new connections between corporates and governments. That may raise further concerns on the stability of the financial system. The collapses of financial service companies, such as Greensill Capital and Archegos in the Spring 2021 clearly showed the interconnectedness of financial exposures. Likewise, asset quality deterioration following the phasing out of government support measures may spill over from the banking system to insurers and institutions for occupational retirement provision (IORPs).

Second, COVID-19 has propelled the digital transformation in the financial sector to a new level, but it has also increased cyber risk and information and communication technology (ICT) related vulnerabilities. The financial sector is the second biggest target of cyber events after the health sector, with payment institutions, insurers and credit unions being most affected.[1] From a supervisory perspective, competent authorities expect financial entities to intensify their efforts in managing ICT security risks, which remain among the top-rated ICT risks, and in countering cyber-attacks.

In that regard, the ESAs welcome the European Parliament's efforts on the Digital Finance Strategy and the legislative files DORA and MiCA, which will help to substantially strengthen the operational resilience at the systemic and individual level. In particular, we welcome that DORA will provide for timely and comprehensive ICT risk data through harmonised incident reporting and of course the ESAs stand ready to develop the level 2 mandates and to assume new tasks in the areas of ICT-related incident reporting, digital operational resilience testing, oversight of critical ICT third-party providers and crisis-management and contingency exercises.

A cross-sectoral key challenge: sustainable finance

From cyber security, let me now move on to one of the biggest challenges of our times, which is climate change.

The Joint Committee takes an active role in contributing to the European Union's efforts to make the economy more sustainable and to implement the European Green New Deal. The Joint Committee strives to provide more standardised, consistent and comparable ESG information to increase transparency and disclosure of the sustainability of investment products and portfolios, both in terms of composition and risks. Moreover, high-quality ESG data and its disclosure is a good line of defense against greenwashing.

During the past year, the Joint Committee has finalised its work on the seven empowerments for the draft regulatory technical standards mandated under the Sustainable Finance Disclosure Regulation (SFDR).[2] On the one hand, the Joint Committee detailed the adverse impact reporting at entity level, which has to be measured in accordance with 50 environmental and social indicators (32 mandatory, 18 optional).

On the other hand, the Joint Committee is finalising major pieces of work on the pre-contractual, website and periodic product disclosures which will be of particular interest to end-investors. The latter will be able to distinguish among sustainability-related products between products with either environmental or social characteristics ("light green") or with sustainable investment objectives ("dark green"). In addition to that, they will also be in a position to see that the product does not significantly harm any of the environmental objectives.

As part of this work, we also developed disclosure templates, which were subject to an online public survey and to two consumer testing exercises conducted in the Netherlands and Poland. Overall, the joint work on sustainable finance was embedded in a close dialogue with various stakeholders.

Consumer protection at the core of the Joint Committee

In 2020 and 2021, the Joint Committee remained an important forum to advance on consumer protection issues across all three sectors. We can gladly report that, in March 2021, the Joint Committee delivered the Regulatory Technical Standard on amendments to the key information document (KID) for packaged retail and insurance-based investment products (PRIIPs).[3] This draft RTS, recently adopted by the EU Commission, will increase the transparency and comparability of investment products for retail investors. Retail investors will receive only one standardised short disclosure document no matter whether they are buying an investment fund product or another type of retail investment.

The Joint Committee also finalised its work on complaints handling. In our final report we found that our respective guidelines contributed to a consistent approach to complaints-handling across the banking, insurance and securities sectors. The guidelines facilitated the streamlining and standardisation of complaints handling to the benefit of consumers and helped promote consistent supervision of competent authorities. Against this background, the ESAs concluded that there is no need to further revise the Guidelines at this stage.

Unfortunately, the health emergency took a toll as well on the annual ESAs Consumer Protection Day which had to be cancelled in 2020. However, this year during two half days on 7 and 8 October the ESAs organised the 8th Joint Consumer Protection Day which allowed for an open dialogue and exchange with stakeholders and representatives of consumers under the headline topic of “Consumers in a digital world, what have we learnt?”. And I would like to thank again everybody who has supported and followed the event.

Revamping the securitisation markets in the EU

Another area of particular focus in the last year has been our joint effort to revive the secondary markets in the EU. Especially in the aftermath of the COVID-19, an adequately regulated securitisation market offers credit institutions and investors a powerful tool to manage their risks and shape their balance sheets in line with their risk appetites.

The Joint Committee developed a Joint Opinion scrutinising the application of the STS regulation to products with a third country component. The Joint Opinion provides for options to consider when it comes to re-assessing the jurisdictional scope, due diligence requirements of EU institutional investors and the definition of ‘sponsor’ for investment firms as well as credit granting criteria.

Looking more at secondary markets inside the EU, the Joint Committee published its joint report on the functioning of the securitisation market where we provide recommendations to address initial inconsistencies and challenges of the current securitisation regime. With the aim to provide guidance to the European Commission in the context of its review of the functioning of the STS securitisation regulation and contributing to the development of a deep Capital Markets Union

(CMU), our recommendations aim at opening and broadening the securitisation market. This can be achieved by clearly identifying those private securitisations that should comply with the disclosure requirements. Reporting entities should submit data of private securitisation to a securitisation repository to provide for complete and consistent data. This enhanced transparency will ultimately inform also supervision and help promote supervisory convergence.

The specification of proportionality in due diligence requirements will further help to open the market to new investors. To improve the efficiency of the securitisation regime, the Joint Committee is proposing targeted changes to facilitate the use of the STS label and to strengthen the EU approach to STS supervision to address potential inconsistencies when it comes to cross-border securitisation issuances.

The Joint Committee continued also to work on practical and operational issues in relation to the supervision of the Securitisation Regulation. The Joint Committee Q&As provided clarifications on the transparency requirements and on third party verification agents.

ork on Financial Conglomerates continues

The Joint Committee remained active on the issue of financial conglomerates. Besides its annual publication listing the identified financial conglomerates in the EU and EEA countries, the Joint Committee released its draft ITS under the Financial Conglomerates Directive (FICOD) on reporting templates for intra-group transactions (IGT) and risk concentration (RC). These ITS will help improve comparability of financial conglomerates in different EU Member States and thereby foster supervisory consistency.

Board of Appeal renewal

Before I conclude, I would like to provide a thank you message in front of this committee to the outgoing Members of our Board of Appeal. The term will end in November 2021 for seven Board of Appeal Members and Alternates who have performed an incredible work in building up this independent appeal body, thus setting the standards for the years to come.

Conclusion

Let me now conclude with a more forward-looking final remark on the Joint Committee. Without pre-empting your negotiations on the digital finance package, I would like to remind you that the Joint Committee is an important forum for exchange on cross-sectoral issues in the financial sector. All Joint Committee participants value the benefit of this open exchange beyond their sectors. However, in some instances, the governance of the Joint Committee lacks the lenient structures and adds layers of complexity, which may hamper swift decision-making.

When it comes to setting up the supervision on critical third-party providers and cooperation on ICT issues, as suggested in the letter of the ESAs Chairs to co-legislators in February 2021, it will be important that we explore the best options together.

I would like to thank you for your attention.

[1] BIS Bulletin No 37: COVID-19 and cyber risk in the financial sector,14 January 2021, page 6, available here.
[2] Sustainability-related disclosures under empowerments Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) of Regulation (EU) 2019/2088.
[3] Final Report following consultation on draft regulatory technical standards to amend the PRIIPs KID, JC 2020 66, accessible here.