BOOSTING EUROPE

Building Trust and Supporting Growth in Europe

EBF recommendations for the EU 2019-2024 legislative cycle and beyond

EBF
European Banking Federation

EXECUTIVE SUMMARY

This document intends to provide some ideas and recommendations to policymakers, regulators and experts on the role of banks in the EU for the next five years and beyond. As the voice of European Banks, the European Banking Federation (EBF) and its members, remain fully committed to supporting a more competitive and cohesive EU in the context of Europe's great diversity. We believe that without a united and coordinated Europe, the most likely outcome would be more fragmentation, more protectionism and therefore underperforming economies to the detriment of citizens. The EBF is committed to help in supporting European economies so that European businesses and citizens are better served by banks. We have set out in this document the sector's recommendations to address the key challenges Europe is currently facing.

RECOMMENDATIONS

Banks as responsible partners to businesses and consumers

- Connect environmental, societal and financial goals
- Find new drivers to increase sustainable investments
- Financial literacy should be promoted as we believe it is an essential factor of the EU economic success
- Put more efforts in the fight against Financial Crime

Build a true Digital Single Market

- EU's competitiveness and consumer protection in the digital economy should be an EU's top priority
- Adopt a holistic approach towards an EU data economy: data access and data sharing should be considered in a broader context than financial services
- Conduct a digital "fitness check" to grasp consumers' and market participants' expectations more thoroughly and guarantee that the legislation is fit for purpose in the digital era
- Banks should be seen as an indispensable partner for the completion of a truly Digital Single Market
- Deepen and upgrade cyber-security standards in the EU
- Enhance actions to address the social impact of digitalisation

Enable banks to better serve the EU's economy

- An appropriate transposition of Basel 4 rules to avoid disproportionate increases in capital requirements for European banks is mandatory
- Remove the remaining obstacles on capital and liquidity circulation and reset the Capital Markets Union
- Maintain a diversified banking landscape
- Ensure a proper balance in taxation and ta x compliance

Achieve a stable and efficient regulatory framework

- Conduct a thorough analysis of the existing EU regulatory framework
- Complement this analysis with an in-depth examination of level playing field issues with non-bank competitors
- Address inefficiencies, overlaps and level playing field issues before proposing new regulations

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FOREWORD

EU at a crossroads in an ever more competitive world

The reset of the EU political cycle offers an excellent window of opportunity for the European Union and national policymakers to redefine the priorities for the European Union while also taking the opportunity to assess what has already been achieved.

The pace of change in Europe and worldwide is accelerating, which creates unprecedented challenges and uncertainties in the EU. Digital transformation, climate change, increasing competition at global level, protectionism, to name only a few, all require concerted, holistic and decisive actions to ensure that the EU maintains global leadership, safeguards its future prosperity and remains a world leading market.

In these challenging times, it would appear essential that **EU leaders of today and tomorrow give absolute priority to improving and regaining the EU's competitiveness**. Competitiveness - in today's and tomorrow's global environment - is the key to ensuring prosperity for EU citizens and making Europe more innovative.

The overarching objective must be to provide the Member States, citizens and companies with the best possible conditions to support sustainable growth, jobs and value creation.

This requires action in various fields: delivering a better functioning single market, empowering people with improved skills; embracing digitalisation; building on Europe's leadership in a low-carbon economy; and ensuring access to global value chains on the premise of a level playing field.

These actions at EU level should be combined with a unifying, renewed vision of what the European Project stands for, based on continuous and active dialogue with all EU's stakeholders.

The European banking sector stands ready to support the EU in meeting these challenges and calls on Europe to prioritise the ambitions for the coming years that are defined in this paper.

Brussels, May 2019

BANKS AS RESPONSIBLE PARTNERS TO BUSINESSES AND CONSUMERS

For a banking sector that contributes effectively to addressing societal challenges

With banks' essential role of financing the economy comes an important responsibility to society. A partner in everyday life – whether for individuals, companies or government - the banking industry has long been aware of the broad role it plays in society. Interacting responsibly with individuals and businesses, responding to the demands and expectations of consumers, investors, companies and their own employees is key. It is all about how banks use their financial capabilities to help address societal challenges.

What we suggest

1. Connect environmental, societal and financial goals
2. Find new drivers to increase sustainable investments
3. Financial literacy as an essential factor of the EU economic success
4. More efforts in the fight against financial crime

Connect environmental, societal and financial goals

Banks are eager to connect societal and financial goals and contribute effectively to major challenges such as climate change and the sustainable energy transition. Many European banks have embraced sustainability as a key element of their business strategy with a large number of them already committed to steering their portfolios to meet the requirements of the Paris agreement. Increasingly banks in Europe are navigating away from carbon-intensive sectors.

However, individual actions are not sufficient to address the sustainability challenges properly. That is why banks are acting together to leverage and amplify individual efforts. In November 2018, the United Nations Environment Programme Finance Initiative (UNEPFI) launched a corpus of principles for responsible banking, developed, in cooperation with 28 global leading banks to serve as a comprehensive global framework for the integration of sustainability across all business areas of banks. These principles should be a catalyst for increasing the positive impact of banks' actions. The European Banking Federation was one of the first endorsers and has been actively promoting the project to its members.

At EU level, we believe these initiatives should be complemented by a smart regulatory framework that could reduce uncertainty, ensure comparability and allow competitive solutions on a global basis. That is why the EBF fully supports the ambition of the European Union to be at the forefront of climate change and energy transition initiatives and calls for the European Commission's Action Plan on Sustainable Finance to be pursued and complemented, where relevant, during the next EU legislature.

The **Action Plan is a significant step in developing a system in which banks can play a concrete role in financing global** energy transition, decarbonisation of the economy and achieving the objectives of the Paris Agreement and the Sustainable Development Goals (SDGs) of the United Nations. The EBF would welcome a holistic approach to avoid the overlapping of initiatives carried out autonomously by different institutions of the EU or between the EU, global standard setting bodies and other markets, such as G20 Member States. The taxonomy should also be seen as a positive example of the public sector acting as enabler of sustainable projects and unlocking the potential of private financing. However, it is of importance that the future taxonomy is seen as a "common language", a simple and clear set of definitions, before progressing any further.

Find new drivers to increase sustainable investments

Appropriately targeted tax benefits, applied within reason, may play an important role in mobilising the shift towards more sustainable actions. Alternative forms of financing could help reach relevant economic thresholds, leading to a higher rate of implementation of the underlying projects. The aggregation of small-scale projects could generate an attractive structure and size for institutional investors. Seen from this angle **the revised securitisation framework risks** not **being sufficiently attractive** to **issuers or investors in so-called green securitisation**.

It should be assessed whether the financing of sustainable assets and their subsequent refinancing through securitisation could be encouraged through securitisation taking into account all potential risks related to green assets. Reducing liquidity constraints for medium- and long-term green finance may also prove important in order to shift the current capital allocation to a sustainable pathway and help fill the financing gap. Green assets could be included in the cover pool of covered bonds to create Green Covered Bonds. This would lead to lower refinancing costs, compared to other options, and allow increased financing for sustainable projects by strengthening their economic viability. Developing further incentives for green bonds would increase funding activities in this sector.

Cooperation between public and private sectors is key. Blended finance and public programmes allowing for guarantees to incentivise sustainable projects, the integration of sustainable finance into promotional structures, the inclusion of green assets into central banks' eligible collateral framework or preferential central bank funding for green assets, should also be considered.

Eventually, given the key role of the circular economy for sustainable development, it is important that circular economy remains a priority for the next Commission and European Parliament. Transition to a circular economy will require changes to business models and strategies, driven by innovation that in turn would require substantial financial resources. European banks are keen to support the transition and engage in the debate.

Financial literacy as an essential factor of the EU economic success

At the EBF, **financial education is a core priority**. For some households, young people, the elderly, the self-employed and business owners, it is not easy to choose the type of loan or the savings or investment vehicle that best meets their needs. This is even more true if they do not have adequate capability to deal with financial matters. Moreover, some financial products become increasingly sophisticated due to constantly changing products and an inconsistent regulatory landscape. Even experts must retrain regularly to keep abreast of the fast pace of changes. Financial literacy is also a fundamental precondition for building an investor base for financial markets. Investors must be able to understand and choose among a variety of diverse products. That is why, in the medium to long term, we believe the EU needs a major evolution of the educational systems to integrate knowledge of financial sector products and services. This is the purpose of several of EBF's initiatives like the European Money Quiz (part of our European Money Week project), which aims at raising awareness and triggering interest in financial literacy for pupils.

The purpose of the European Money Week is to raise the financial awareness of children and young people through teaching. Children are taught how to draw up a budget, manage their finances and ending up in financial difficulty. Employees from the financial sector contribute to the enhancement of financial literacy by teaching the oldest children in primary school during The European Money Week.
Also see www.europeanmoneyweek.eu and www.europeanmoneyquiz.eu.

Financial literacy is also essential for entrepreneurs so they can take advantage of financing options and develop their businesses. This is particularly important for homegrown SMEs and FinTechs. The EBF has been promoting financial education through various means, including several publications and initiatives on financial literacy, highlighting the industry's commitment to providing consumers with a sounder understanding of financial services. For the next five years we will renew our commitment to working with policymakers and key stakeholders to keep raising awareness to future and existing banking customers across Europe.

More efforts in the fight against financial crime

A reliable and trusted financial system is fundamental to a well-functioning society. Through a series of due diligence and reporting requirements, public authorities extensively rely on banks in the fight against financial crime, including money laundering, financial sanctions evasion and financial fraud against customers. In order to implement and comply with relevant standards and regulations, European banks have made a considerable effort and huge investments. **The banking sector is by far the biggest contributor to the Anti-Money Laundering (AML) framework** and banks are closely monitoring developments in financial crime, including tax fraud, and continually seeking to upgrade their procedures and capabilities for tackling these threats and to ensure the transparency of their customers. Nonetheless, recent money laundering issues and terrorist attacks are encouraging policy-makers and regulators to increase the role of banks further, as auxiliaries to the AML and combatting the financing of terrorism (CFT) competent authorities, by imposing on them additional requirements. While overall the framework put in place has helped to fight financial crime, it has been developed in successive layers and is lacking coherence, both between supervisors, EU Member States and the EU and other key global markets. While there are some positive examples of formal public/private cooperation to pool information on money laundering and terrorism, in many cases the framework focuses on the administrative requirements imposed on financial institutions and their role as gatekeepers rather than on a risk-based approach. The result is a massive flow of information to the competent authorities, which appears not to be as effective in the fight against financial crime, money laundering and the financing of terrorism, as would be a more coherent and focused approach.

The **consistency, efficiency, and administrability of the EU AML/CFT framework must be enhanced together with a robust risk-based approach**. In addition, through better coordination between supervisors and banks, wider information exchange across borders and between banking groups, more targeted and effective reporting, and use of shared digital platforms and tools (e.g. public-private Know-Your-Customer utilities allowing the collective management of information on legal entities and beneficial ownership) the efficiency of the prevention system would significantly increase. It is also important that authorities in the EU and other key markets continue to collaborate closely in the fight against money laundering and terrorist financing, reducing risk of disruption to cross-border compliance and adverse impact on customers.

EBF firmly supports the current initiatives to strengthen the role of supervisors in the AML/CFT framework. Better cooperation and information exchange between supervisors, law enforcement agencies, competent authorities and financial institutions are all essential if we want to improve the overall efficiency of the system.

In the Internal Market, the rules, regulations, and standards should be applied and interpreted consistently and uniformly across all Member States. Further harmonisation of the framework would help eliminate unwanted differences between the national AML/CFT regimes, to clarify and simplify the regulatory requirements, and to lay a stronger foundation for enhanced supervision and the fight against financial crime.

BUILD A TRUE DIGITAL SINGLE MARKET

Boosting competitiveness in the digital economy and better serving consumers

Digital impacts almost every aspect of our lives. Technologies generate new opportunities for businesses and consumers by offering more choices, and easier access to products and services. Banks as vital digital investors and innovators should be seen as central partners for the completion of a truly Digital Single Market. They are increasingly prominent drivers of the FinTech ecosystem where they are uniquely positioned in the synergy and expertise they offer and where they play a decisive role in the accomplishment of the European Digital Single Market. Boosting Europe's competitiveness in the digital economy, empowering consumers as well as deepening the security and resilience of digital services and infrastructures, should be a top priority for the EU institutions.

What we suggest

1. EU's competitiveness and consumer protection in the digital economy should be an EU's top priority.

2. Adoption of a holistic approach towards an EU data economy: data access and data sharing should be considered in a broader context than financial services.

3. Conducting a 'digital fitness check' to grasp consumers' and market participants' expectations more thoroughly and guarantee that the legislation is fit for purpose in the digital era.

4. Banks should be seen as an indispensable partner for the completion of a truly Digital Single Market.

5. Cybersecurity: deepening and upgrading the mandatory pillar of the digital economy.

6. Enhancing actions to address the social impact of digitalisation.

Make competitiveness and consumer protection in the digital economy the EU's top priorities.

Digitalisation and consumer protection.

Banks continue to be among the biggest investors in new technologies and are at the forefront of the development and uptake of several technologies which hold the potential to revolutionise, not only how banks operate, but societies as a whole.

Digitalisation does not only refer to technological development but to a broader phenomenon which is shaping the demands and needs of customers. Today, customer demand services are fast, reliable and secure and can compare a multitude of products more easily than ever before to choose the best suited to their personal needs. But this does not mean that customers will be less protected when moving to a digital solution. When customers buy a banking service, they should receive the same high-level protection and information regardless of where and how they buy it. In this context, it is important to ensure a principle-based customer-centric approach for consumer protection frameworks.

Competitiveness of the EU.

New players bring fresh impetus, boost competition and create cooperative opportunities. This is to be welcomed, as it increases the range and quality of services offered to customers. Technological innovation should be secure and should assure consumer protection, and the protection of funds and of personal data. In this global and fast-changing digital ecosystem - where Europe should also be among top leaders - guaranteeing fair competition among market participants is central. The focus needs to be on the services and activities offered to consumers, instead of focusing on the entity being used to deliver these.

Attention should also be paid to supporting the competitiveness of EU's financial institutions on the international stage by allowing European corporates, including banks, to compete on an equal footing. In its strategy on Artificial Intelligence (AI)[1], the European Commission is calling for the EU to be ahead of the technological developments and swiftly take up new technologies across its economy to avoid "losing out on the opportunities offered by AI, facing a brain-drain and being a consumer of solutions developed elsewhere". It should be an approach which should be followed and extended further.

1 European Commission's Communication Artificial Intelligence for Europe – 25 April 2018

In particular, on payments, it is vital to develop a shared vision for the future of the European industry. The EBF supports the necessity to reduce the risks and vulnerabilities in retail payments systems, as expressed in the Commission Communication "Towards a stronger international role of the euro"[2]. This should be accompanied by strong political support and an effective coordination to ensure the interoperability of existing payments solutions and wide availability of payment services for customers, and of cross-border **payments**.

Adopt a holistic approach towards a EU data economy

Data-driven innovation is a key enabler of economic growth and has the potential to boost EU competitiveness, significantly, in the global market. Helping European companies to deploy the highest capabilities in data is essential to achieve this objective. Banking institutions have the trust of the customers and citizens when it comes to safeguarding their money or personal data[3]. They also play a major role in ensuring growth is inclusive – by tackling financial exclusion, helping entrepreneurs start companies and creating jobs – sustainable, and in promoting financial education.

European banks are now required (through the PSD2: Second Payment Services Directive) to allow access to their customers' data on payments by third party providers, via dedicated interfaces free of charge.

2 Towards a stronger international role of the euro: Commission contribution to the European Council and the Euro Summit (13-14 December 2018)

3 For instance, in France, more than 2 out of 3 people (77%) identify banks as the first trusted partner to support them in protecting their financial data (Atelier Fintech BNPP – see link: atelier.bnpparibas/fintech/article/fintech-route-confiance, last accessed 16 November 2018

To ensure the right incentives are in place, **data access and data sharing should not be limited to the banking sector**. Data access and data sharing is a crucial step for a competitive EU data economy. In this context a holistic approach towards a EU data economy should be the main driver allowing the EU market, as well as EU market participants, to scaleup. Further data access and data sharing in the digital economy, including also public sector data, needs to be based on mutual benefits and the possibility for all market players to establish business models. This is the right and necessary pre-requisite for starting work in this area. This approach should also ensure that it includes the users and that they are empowered in data sharing.

Conduct a 'digital fitness check' to identify consumers' and market participants' expectations more thoroughly and guarantee that the legislation is fit for purpose in the digital era

It is vital that the right balance between innovation, competition and security is struck to ensure that consumers can enjoy the benefits of digitalisation in the safest way possible. To this end, regulation should be technology-friendly in order to account for the behaviour of modern customers – from their expectations to the devices they use – and to encourage technological innovation with further consideration for consumer protection.

In order to allow European banks to continue their transformation into digital actors, it is essential to adapt the regulatory framework to today's digital reality. **The EBF therefore calls for a fully-fledged digital fitness check of the current regulatory framework** in order to ensure that the regulatory framework is fit not only for advancing digital solutions but also for the modern digital world. Rules should be neutral, regardless of technology used, and should provide for the digital needs of different customers. Adapting rules where relevant and removing obstacles to the deployment of truly digital strategies. This means, for example, adapting the prudential perimeter and competition rules, allowing full digital onboarding and facilitating the use of public/hybrid cloud computing solutions by banking institutions. It also includes ensuring the scalability of European innovation projects by overcoming national fragmentation and safeguarding a coordinated approach, at EU level, and supporting forward-looking technologies such as Artificial Intelligence, DLT, etc; and ensuring that European start-ups can "scale up" in Europe, without having to look to other jurisdictions for their funding and growth.

Where technology offers new features such as crypto-assets, careful analysis should complement the fitness check, to guarantee an adequate level of consumer/investor protection and transparency.

Banks are a key partner for the completion of a truly Digital Single Market

Today, banks play a central role in the FinTech ecosystem, with more than three quarters of FinTech firms identifying collaboration with traditional players as their primary objective.[4] Investment by traditional financial institutions in FinTech has only been rising[5] with spending on AI alone hitting €2.8 billion in 2018. This makes banks **leading investors in AI in Europe**, with bank investments predicted to triple in value by 2021.[6]

The continually evolving technological landscape will help optimise processes that might typically rely on intuition, limited or incomplete information. As digital players, banks have the potential to offer **faster, higher quality, and more inclusive** services to European customers, while at the same time **improving threat detection and fraud prevention**.

Cooperation is a fundamental step towards strengthening the European banking sector so it can take the opportunities presented by new technologies safely and securely.

4 CapGemini, World Fintech Report (2018)
5 KPMG Pulse of Fintech (2018)
6 IDC, Worldwide spending on Cognitive and Artificial Intelligence (2018)

Cybersecurity: a mandatory pillar of the digital economy

European Banks invest heavily in cybersecurity to prevent cyberattacks. They are targeted by criminals for money and data but also for disruption when geo-politics and hacktivism come into the picture.

The legislative and regulatory efforts of the past two years highlighted cybersecurity as a key strategic priority for the EU, which requires a collective approach and a **deep public-private partnership** between authorities, industries, governments and citizens. Legislative and regulatory efforts **need to be followed up by effective implementation**.

Although it is, of course, the prime responsibility of the banking system and banks individually to increase their cyber resilience and protect themselves against cyberattacks, they need to be supported by a harmonised regulatory environment that avoids duplicating mechanisms and conflicting requirements. Policies should build on what is already in place for an effective fight against cybercrime. We propose the security-**by-design approach for regulators and supervisors** too, in order to ensure that each piece of legislation, by default, passes the cybersecurity test through an impact assessment.

Furthermore, as banks are part of an increasingly growing and complex chain of actors, where a weak link could compromise the whole chain, it is essential to **increase the cyber resilience** of the **non-banking actors too** by ensuring adequate IT security requirements and supervision for all.

Cooperation is fundamental to improving cybersecurity, both for prevention and mitigation of cyber incidents. More needs to be done to facilitate the industry in information sharing on cyber threats and attacks, accessing threat intelligence from law enforcement and authorities, receiving high-level guidance as a result of incident reporting analysis while maintaining the confidentiality of sensitive data. Information sharing needs to take place on trusted platforms and be a two-way street.

The inherent global nature of cyber threats has also highlighted the critical need for international cooperation in addressing such risks.

We also believe that digital training and education, as well as awareness-raising campaigns on cyber risks should be further developed at European level, in partnership with the private sector, aiming both at customers and bank employees.

Act to address the social impact of digitalisation

A Social Europe is a fundamental objective of the European Union. The transition to a digitalised society has a profound social impact and banks consider the social aspects of the Digital Single Market to be crucial, **both in terms of their customers, and, of their human resources**.

In addition to financial education, we believe that inclusion and customers' safe use of digital banking services require **large-scale efforts and public-private partnerships to enhance digital skills and cybersecurity awareness**.

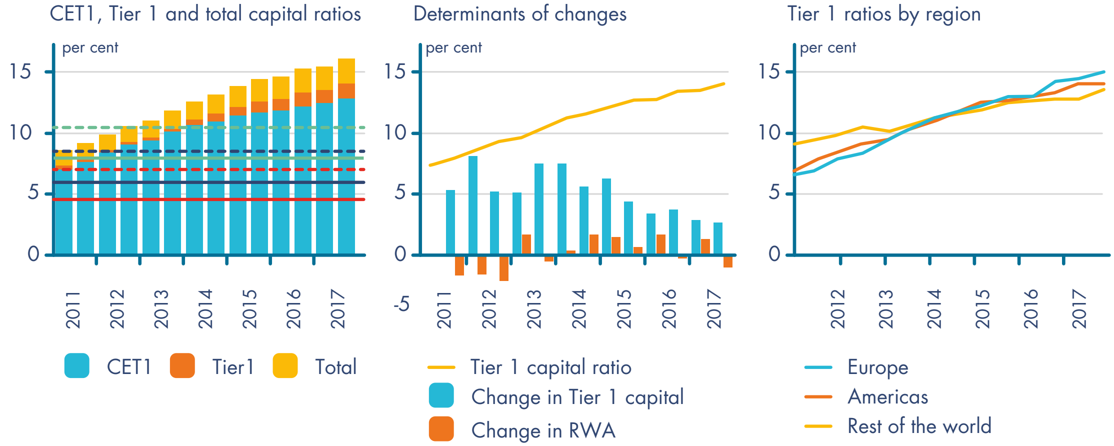
Moreover, new customer expectations and new working modalities for the employees of banks have been created by the digitalisation of financial services. **Closing the skills' gap of existing employees vis-à-vis digital technology** as well as adapting education curricula to prepare future employees more effectively, must continue and intensify. This is a shared responsibility between governments, employers and employees.

ENABLE BANKS TO BETTER SERVE THE EU'S ECONOMY

As the main source of funding for the EU's economy banks are making available financial resources to fund investment opportunities, assume risks, improve liquidity and mobilise savings more easily. But the EU could also create better conditions to allow them to compete globally.

Following the financial crisis in 2008, there has been a gradual and steady improvement in the health of bank balance sheets, evidenced by the European Central Bank. European banks are now better positioned to finance economic growth, safely, on a sustainable basis. The latest stress tests recently confirmed again that European banks have become much more resilient. The current prudential metrics of the European banking system speak for themselves: **the core equity capital ratio is up to 14%, double that of the pre-crisis level**; the leverage ratio has been raised from less than 3% to above 5%; the short-term liquidity ratio, one of the weakest features of European banks in the crisis, has gone up from 70% to 145%. The achievement of regulatory reform has also been possible thanks to the continued commitment of banks (see graphs next page).

Fully phased-in initial Basel III capital ratios continue to increase



Source: BIS, Basel III monitoring report, Oct. 2018.

However, banks' ability to contribute to more prosperity in Europe should not be taken for granted. The essential condition for this to work is allowing **banks to operate profitably**. Low profitability weakens the ability of banks to finance the wider economy. And especially in Europe, banks are still suffering from this reality and are losing ground to their international competitors.

Addressing the profitability challenge

As far as external influencing elements are concerned, profitability in the European banking system remains subdued mainly due to three concurrent factors:

1. The low interest rate environment;

2. Obstacles to cross-border business;

3. The higher regulatory cost.

There is a fundamental difference between these three factors. The first one: protracted low interest rates might not be permanent. The second factor: the obstacles to cross-border business, is possible to overcome. But the third one: costly and uncoordinated regulation, is there to stay unless policymakers take decisive action to increase regulatory efficiency.

Europe needs a stable and profitable banking sector to remain competitive globally. As a result, the EBF is convinced of the importance of developing a vision for the banking sector that is an integral part of the broader vision for a competitive European Union.

What we suggest

1. An appropriate transposition of Basel 4 rules to avoid disproportionate increases in capital requirements for European banks.

2. Removal of the remaining obstacles on capital and liquidity circulation and resetting of the Capital Markets Union project.

3. Maintaining a diversified banking landscape.

4. Proportionate compliance and tax requirements.

How to achieve it

Appropriate transposition of the Basel IV package by the EU will be particularly important in this context.

This means consistent and timely implementation, assuring coherence with other key markets, but also taking a proportionate approach in order to account for EU particularities. Implementing the Basel rules on a "as is" basis would mean a significant increase in capital requirements for European banks. The particularities of the EU banking market, in a number of areas, (investment finance, SME financing, real estate financing, the use of internal ratings models) need to be taken into account - after a thorough impact assessment - by the European Commission, when elaborating concrete and proportionate proposals which would not threaten efforts to reduce fragmentation of global markets and regulation, a G20 goal supported by the EU. The EBF is currently working alongside its members with a view to suggesting tangible proposals for the implementation of the Basel IV package ahead of the next legislature.

Remove the remaining obstacles to capital and liquidity circulation and reset the Capital Markets Union project

Stimulating **global competitiveness of the EU's technology and other companies**, as well as maintaining the **best conditions for SME development are of utmost importance to the EU's economic growth**.

Furthermore, European multinationals need support from banks to have a global reach for meeting their financial needs. **To achieve this scale competitively and support their clients better, European banks need a truly integrated EU financial market**; a market that allows banks to benefit from economies of scale, in order to improve cost efficiency of their products and services and achieve sustainable and appropriate levels of profitability.

In this context, the need to remove the remaining obstacles that hinder the fungibility of capital and liquidity of banking groups within the Banking Union should be a priority. These obstacles impede both the development of European-wide platforms and further cross-border consolidation at EU level for banks to be able to compete effectively with global players; they relate to regulatory fragmentation and ring-fencing of national markets. The recent review of the CRD-IV/CRR could have gone further in this respect. Remaining national options and discretions, the lack of application of cross-border liquidity waivers, the lack of cross-border capital waivers including the waiver for large exposure limits for intragroup exposures, internal TLAC requirements, national G-SIB buffers could be addressed through further harmonisation.

Last but not least, the next legislative cycle will also have to deal with the completion of the third pillar of the Banking Union: the European Deposit Insurance Scheme (EDIS). From an EBF perspective we would favour a new approach that could better capture Member States and industry interests.

Financial markets are also critical for the provision of a broad range of products and services needed by corporates and investors (such as hedging, public debt, and pension products). However, the **EU lacks a single and competitive capital market**. The magnitude of capital market financing of the EU's economy has fallen, as a percentage of GDP, from almost 90% in 2007 to 70% in 2016. What is more, EU capital markets remain much smaller compared to the US capital markets in terms of GDP (70% of GDP vs. 150% of GDP in the US in 2016). The EU market is still too fragmented in small national markets, a reality which prevents financial institutions from fully benefitting from a scalable market and from offering European-wide services and products. In particular, the lack of developed and integrated financial markets means a scarcity of public and private equity financing, which is critical for fostering innovation in the European economy.

Contrary to the commonplace assumptions about financial markets and bank lending being mutually exclusive, each type of financing has its unique features which benefit the economy, and should be regarded as complementary. For example, banks are an integral part of capital markets: as intermediaries, advisers and providers of both capital and risk-management expertise. In fact, banks and markets work together to meet the needs of companies and investors. The more efficient the capital market, the more efficient the banking system.

All these factors explain why achieving the CMU is essential to the financial stability of the EU as a stronger European investor base should improve the resilience of debt capital markets in the event of a financial crisis.

European banks remain committed to the EU's projects of the Banking Union and the Capital Markets Union within a fully integrated financial union. Strengthening and integrating capital markets in the EU will be beneficial for the EU economy, in particular through the provision of risk capital and diversification of funding sources. Despite the efforts of the current European Commission and the progress achieved with the adoption of some of its initial proposals, **the Capital Markets Union will need renewed momentum to reach fruition and deliver on the promise of solid, well-integrated EU capital markets**.

Further development of securitisation in the EU is also an important part of the CMU. If, after an observation period, the Securitisation Regulation of 2017 does not achieve its objectives of fostering a growing securitisation market, it should be reviewed for improvements that support a competitive and open market for securitisation in the EU.

With a view to sustaining momentum of such an important project, the EBF has just launched a project to generate a consensus among different sectors of the economy that use and provide services to capital markets ('**Markets 4 Europe**') around a bold vision for the EU's capital markets. The goal will be to stimulate the public sector and industry action required to develop and integrate markets and crystallise attention on the game-changing actions to remove high-impact obstacles. The results will be presented by November 2019.

Recommendations for strengthening capital markets in the EU

1. Generate consensus around the remaining fundamental, structural obstacles that stand in the way of an integrated Capital Markets Union;

2. Identify and adapt, where possible, best practices from regions that have more developed capital markets;

3. Develop local financial services' ecosystems through tailored and coherent, regulatory and non-regulatory solutions;

4. Develop private equity markets and alternative ways of financing to function as a complement to public capital markets;

5. Develop a well-functioning pan-EU securitisation market;

6. Ensure that regulation is proportionate so that it does not unduly limit banks' capacity to finance the economy in terms of funds available or the activities that can be offered;

7. Build an equity culture in the EU, supported by improved opportunities for investing in capital markets.

Maintain a diversified banking landscape

Small and medium-sized banks in the EU are particularly affected by the extent of administrative burdens which appear to be disproportionate to the systemic risk they pose to the EU market. Consequently, **greater consideration should be given to the principle of proportionality**, when it comes to administrative and reporting burdens. This is of high economic relevance, as small and medium-sized banks in the EU are important cornerstones of financial stability. The financial crisis showed that diversity in the banking market contributes to the stability and the resilience of the financial system and brings other beneficial effects in terms of competition and the provision of financial services to the economy, etc. In other words, smaller banks with low-risk business models are undoubtedly stabilising factors in the financial system. The 2019-agreed banking package will introduce greater proportionality of administrative burdens for smaller banks. Looking ahead, further work is nonetheless required.

Ensure a proper balance in taxation and tax compliance

Taxes and tax-related compliance burdens also have a major impact on EU banks' profitability and competitiveness. Corporate income taxes, for instance, are a major cost factor for banks. The EBF would like to emphasise that corporate taxation within the EU could certainly be more stable, predictable and sustainable. VAT is also a significant cost for banks under the current EU financial services VAT exemptions.

Banks generally do not charge VAT on the services they provide to their customers, nor do they recover VAT on costs they incur. This non-neutrality of the VAT system as it applies to financial services has been aggravated by a series of recent judgments rendered by the Court of Justice of the EU. Consequently, irrecoverable VAT represents a significant addition to the banks' tax cost base.

Notwithstanding, policymakers are convinced that banks draw benefit from the VAT exemption regime and do not contribute fairly when paying tax, hence the support many of them give to the idea of introducing a Financial Transaction Tax (FTT).

Banks face significant obligations in providing tax authorities with information to assist governments to police their tax systems effectively. It is critical that such obligations are proportionate, clearly framed, coordinated, and introduced with sufficient lead time to enable banks to meet their legal obligations.

How to achieve it?

In line with the objective of a more efficient and competitive internal market, any harmonised EU corporate tax framework should aim for sustainability. EU initiatives in the field of corporate taxation – in particular, digital taxation policies - should remain targeted and consistent with OECD standards including the Base Erosion & Profit Shifting framework (BEPS), and the existing guidelines on the attribution of profits to banks' permanent establishments. EU initiatives, notably regarding the development of a Common (Consolidated) Corporate Tax Base (CCCTB), should also remain consistent with applicable accounting standards and be practicable in their implementation. At the same time, a level playing field with the EU's major trading partners should be maintained.

In particular, an adequate tax treatment of debt financing across the EU should be guaranteed.

The modernisation of the treatment of financial services for VAT purposes should be resumed, whilst the detrimental effects that a Financial Transaction Tax scheme would have on the EU's capital markets and the competitiveness of its businesses should be recognised.

Practical solutions to simplify withholding tax relief/refund procedures within the EU should be encouraged and concrete steps should be taken as a follow-up to the Code of conduct on simpler withholding procedures, including a standard EU form for refund. In the longer term, an optional relief at source solution, like the one proposed in the Treaty Relief and Compliance Enhancement (TRACE) implementation package, is desirable at global level.

ACHIEVE A STABLE AND EFFICIENT REGULATORY FRAMEWORK

An assessment of the current regulatory framework, overlap, interlinkage and interconnections

Following the decade-long implementation of a continuous programme of regulatory change in the wake of the 2008 financial crisis, we now believe the time has come to take stock and evaluate what is and what is not working, and to make further adjustments where necessary. A stable and efficient regulatory framework is crucial for banks.

A more efficient system of financial regulation is a critical pillar in the policies to stimulate growth. This should help remove unnecessary burdens, increase banks' profitability, within the European banking system, without reducing the high level of resilience achieved.

In the same spirit of the Financial Stability Board (FSB), which is currently evaluating the G20 reforms, rather than triggering additional reforms, the European Union actions should be equally aligned. They should scrutinise existing requirements in the context of an analysis of potential efficiency gains.

The volume and complexity of regulations affecting the banking system are enormous. The Capital Requirements Regulation and Directive are so intricate that it becomes complex for banks to manage its implementation, and, challenging to be fully compliant. In addition, banks dedicate significant amounts of resources in order to comply with the long list of other regulations and requirements, starting from sector-specific ones such as European Market Infrastructure Regulation (EMIR), Banking Recovery and Resolution Directive (BRRD), Market Abuse Directive (MAD), Markets in Financial Instruments Directive (MiFID), Prospectus, the legal framework for payment services (such as

Payment Services Directive 2) and right through to cross-sectoral ones like the General Data Protection Regulation (GDPR).

At the same time, and in order to maintain the stability of financial system, the integration of Anti-Money Laundering considerations into the supervisory framework should also be seriously contemplated. It has become apparent that AML/CFT issues can quickly become major prudential issues affecting the banking sector's stability (e.g. related sanctions). In a more harmonised, and hence, simplified regulatory environment, a good part of resources currently employed in this area could be diverted to banking activities supporting and driving the real economy.

What we suggest

We believe that the **new European Commission** should now analyse together with the banking sector whether there are opportunities for efficiency, streamlining and simplifying regulation along the better regulation principles. We believe that substantial efficiency gains may arise, if a critical review of the banking regulatory framework is carried out. The review should be complemented by an in-depth examination regarding a level playing field with non-bank competitors to ensure all activities in the financial sector are regulated the same way.

How to achieve it

As a matter of principle, the same activity should be subject to the same rules, irrespective of the sectoral classification of a company. Otherwise activity will move to more cost and capital efficiency, but less regulated, providers, e.g. shadow banking, giving rise to macroprudential risks if it becomes sufficiently large in scale and product scope. To reduce this risk authorities, need to rightsize regulation.

Efficient coordination between authorities is also necessary. Regulatory reporting is an area which requires improved coordination, within the EU, and between the EU and other key markets, to reduce regulatory fragmentation. There is a strong belief that reporting can be organised in a more efficient way. More than simply the amount of reporting requirements, the issue is the lack of efficiency in the design and transfer of data from banks to supervisors and regulators, and duplication of reporting between supervisors. This is owing to multiplicity of EU authorities and supervisors whose requirements are not always well coordinated. It is also owing to the lack of a common and comprehensive reporting dictionary. The solution to the current problem of duplication in reporting should apply these principles: **define once, report once, share information and enhance governance**. "Define once" requires setting up a single data dictionary for all purposes: supervision, resolution, statistics and other uses. "Report once" means that each data point and each template should be reported by banks only once. "Share information" implies that European and national authorities should have protocols for data sharing, to avoid requesting more than once the same data, in different forms and for different purposes. "Enhance governance" suggests governance for new requests with an earlier involvement by the industry with the authorities. In addition, the system of checks and balances (i.e. countervailing power) with respect to supervision by the ECB, should be improved. This concerns both the supervisory costs and the authorities of the ECB. The powers of the European auditors or European Parliament could be bolstered in order to achieve this. Streamlining and enhancing current reporting dictionary initiatives into a common and single taxonomy would reduce the reporting burden for banks.

The European Banking Federation is the voice of the European banking sector, uniting **32 national banking associations** in Europe that together represent some **3,500 banks** — large and small, wholesale and retail, local and international — employing about **two million people**.

Brussels / 56 Avenue des Arts, B-1000 Brussels
Frankfurt / Weissfrauenstrasse 12-16, D-60311 Frankfurt am Main

+32 2 508 37 11   www.ebf.eu   info@ebf.eu   #ebf

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