Who benefits from banks' cross-border competition

SUERF Conference on Cross Border Financial Services: Europe's Cinderella?
November 15, 2019

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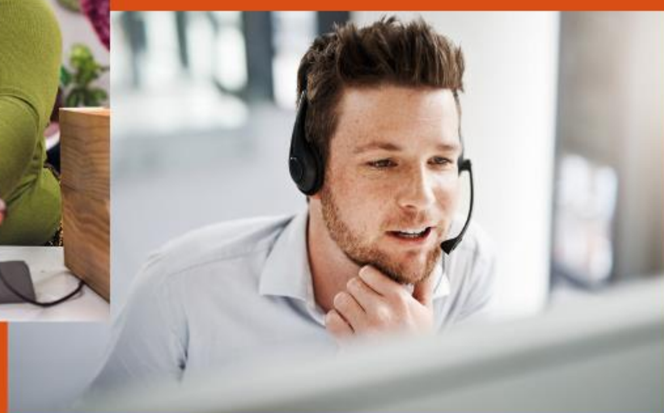
Chief Economist and Director of Economic Research and Statistics Division, WTO
Shanghai, October 2019

Who benefits?

- Exporting country, importing country.
  - Competition effects
  - Variety effects
  - Innovation/learning effects
  - Scale effects
- Financial services are an integral contributor to other services sectors, but also manufacturing sectors.
- Gains also require effective, coherent, and consistent regulatory environments.
- This presentation mainly about what we know about cross border financial services flows and the global evolution of those flows and global rules– from our World Trade Report 2019 released in early October.

World Trade Organization



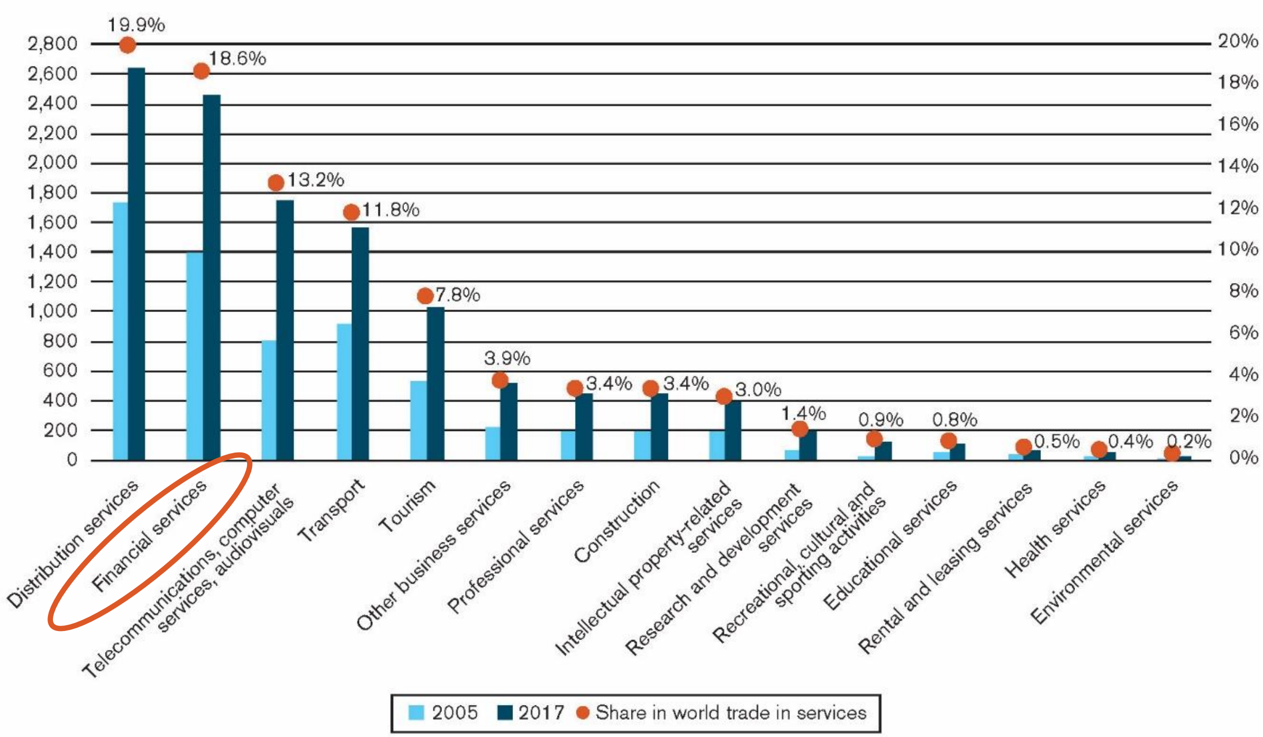
WORLD TRADE REPORT 2019

The future of services trade

Financial services are the second largest service sector traded globally

Figure B.2: Distribution and financial services are the most traded services[3]

World trade in commercial services by sector, 2005 and 2017



Source: WTO estimates (2019).

Note: World trade is calculated as the average of world exports and world imports.

- Global trade in financial services was worth US$ 2,463 billion in 2017
- That is 18.6 per cent of total services trade.

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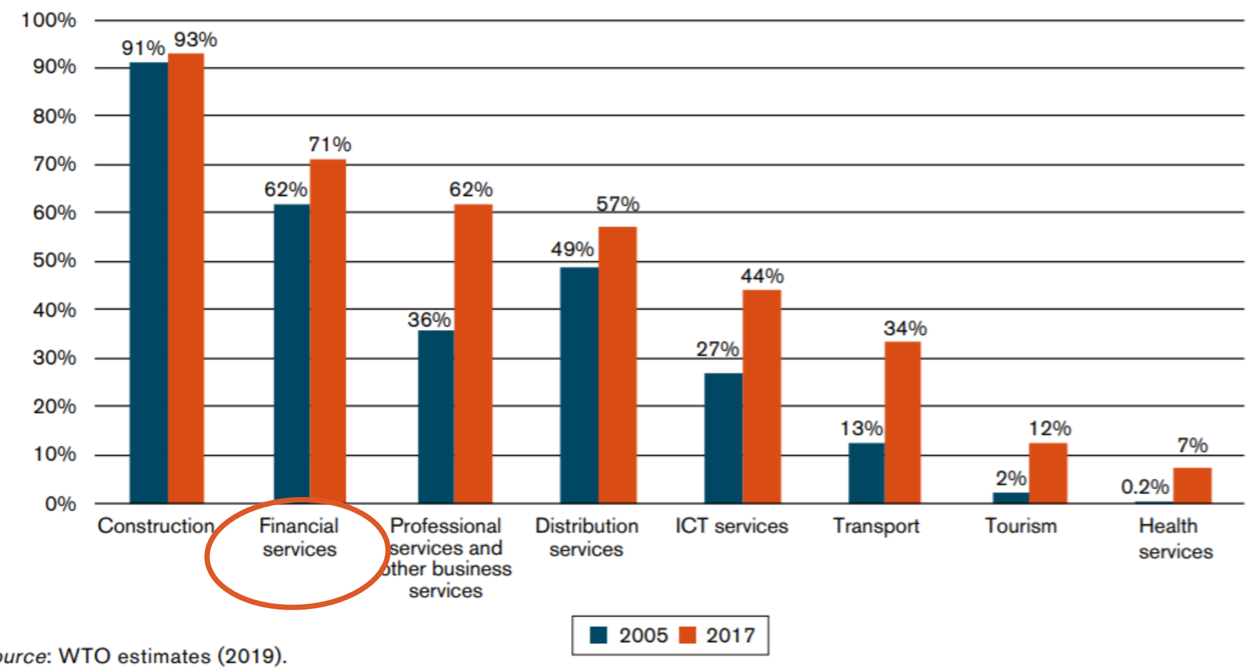
Commercial presence is the dominant mode of supply

- World trade in financial services takes place predominantly by means of the establishment of a commercial presence in other countries (mode 3).
- In 2017, around 77 per cent of financial services, or some US$ 1,941 billion, were traded worldwide through foreign affiliates.

This is the case also for the main developing exporters

Figure B.12: For the top five developing economies, commercial presence is the dominant mode for exporting services

Five leading developing economies' exports through foreign-controlled affiliates abroad (commercial presence) in selected services sectors, 2005 and 2017



Source: WTO estimates (2019).

- China, Singapore, Korea, Hong Kong, China and India are the largest developing exporters of services
- 71% of their financial services exports were through foreign presence in 2017

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But digitalization is reshaping the business model

- Increased digitalization, e-banking and mobile banking are reshaping business models for the finance sector.

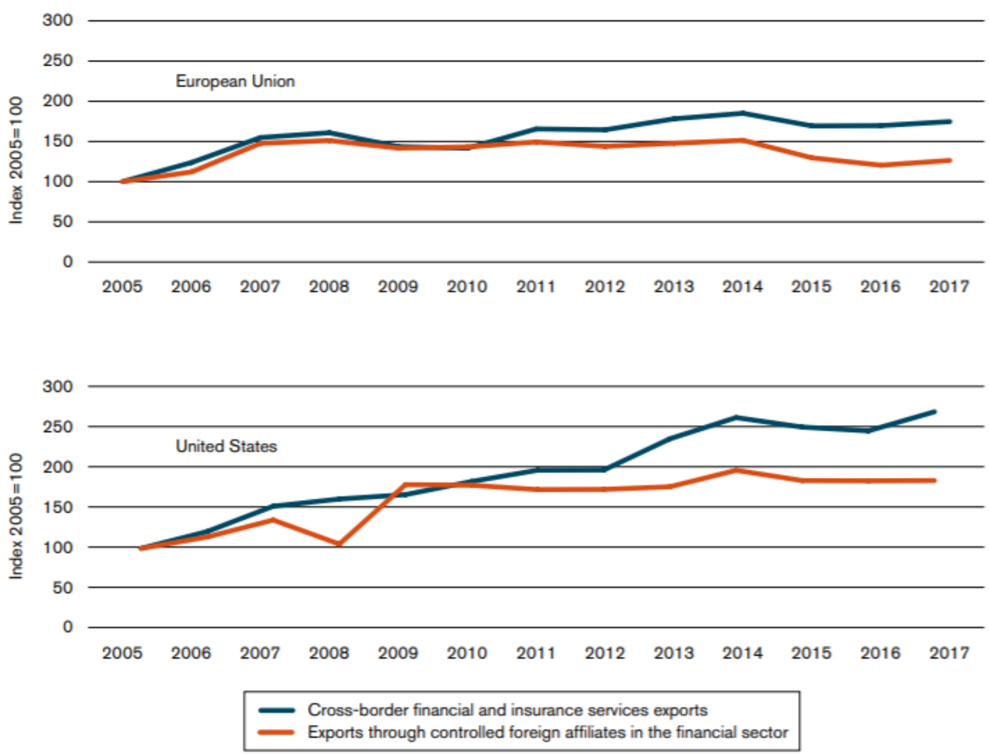
- Although banks and other financial services institutions maintain affiliates abroad for operations, they are offering an increasing number of services online, from credit card transactions to finance management.

- Insurance companies are making it possible to underwrite and submit claims online. These are only a fraction of the online cross-border services that digitalization is expected to bring to the industry in the near future.

Cross-border supply of financial services is gaining importance

Figure B.3: EU and US cross-border financial and insurance services exports are growing faster than exports through foreign-controlled affiliates

EU and US cross-border exports of financial and insurance services and exports through controlled affiliates abroad (mode 3), 2005-17



Source: WTO estimates (2019).

Note: The European Union is calculated as the sum of the 28 EU member states and includes intra-EU trade.

- The share of financial services exports through foreign presence is declining in the EU and the US.
- In 2017, the share of financial services exported by EU-controlled affiliates was 6 percentage points lower than in 2005.
- The United States' financial services exports through cross-border transactions almost tripled compared with 2005, reaching US$ 109.6 billion.

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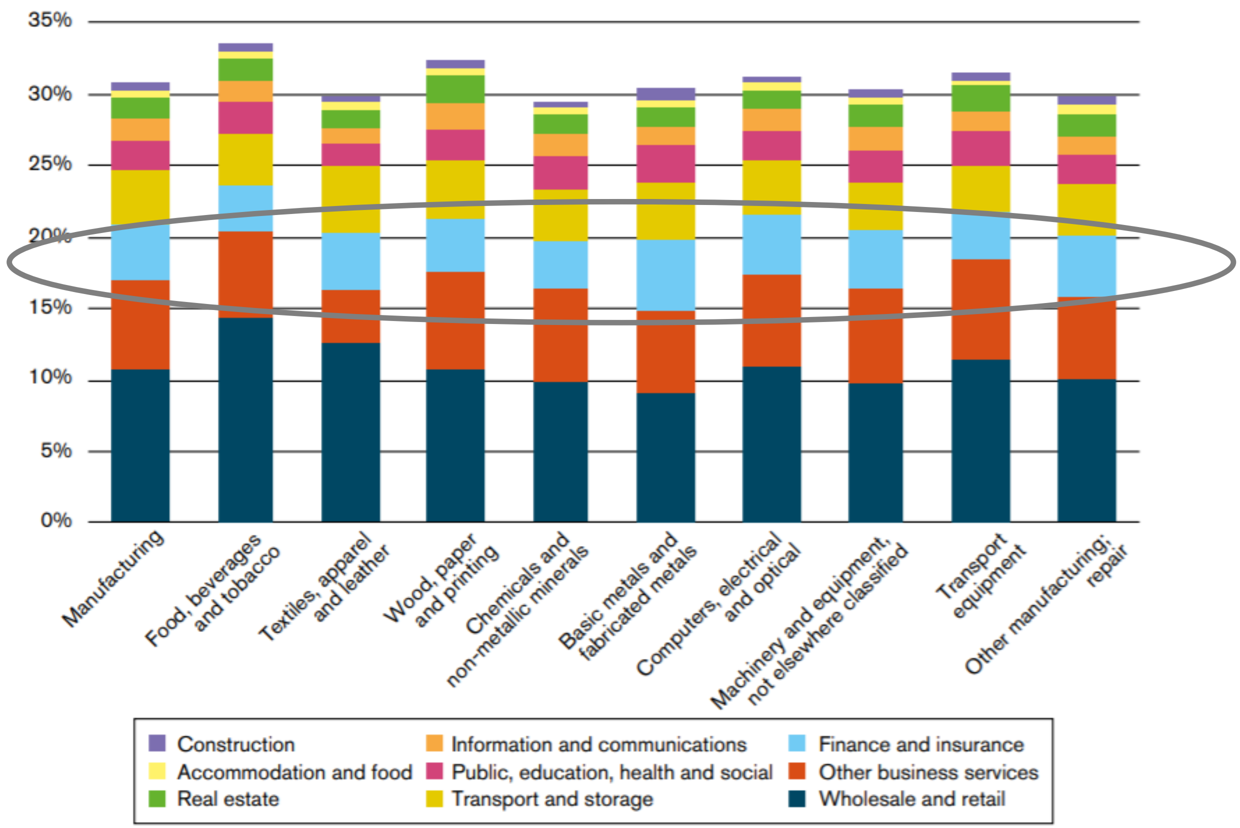
Financial services are important inputs into manufacturing exports …

Figure B.25. Services have similar relative importance for exports in different manufacturing sectors
Services value-added in exports of manufacturing industries, 2015



Source: OECD TiVA database (2018).

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… which makes them critical for the functioning of the entire economy …

- The financial or capital market is responsible for allocating an economy's savings to their most productive uses and also for allocating investment risk to those willing to bear it.

- If this allocative function fares poorly because of an underdeveloped financial sector, it can starve productive firms of much-needed capital, while channelling resources to firms with poor prospects.

- The state and performance of financial services has thus an enormous influence on productivity across the entire swath of a modern economy.

… and sustainable development

- Many Sustainable Development Goals and their associated targets mention financial services.

- SDG 1 (“End poverty in all its forms everywhere”) identifies better “access to [...] financial services, including microfinance” as a specific target.

- Access to financial services is mentioned as a means to
  - “End hunger, achieve food security and improved nutrition and promote sustainable agriculture” (SDG 2);
  - “Ensure healthy lives and promote well-being for all at all ages” (SDG 3);
  - “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” (SDG 8);
  - “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation” (SDG 9).

Trade in financial services can potentially improve their quality and efficiency …

- The entry of foreign banks is associated with greater efficiency in the domestic banking system (Claessens et al., 2001)

- Greater openness of the financial sector can boost economic growth especially in developing countries (Eschenbach and Francois, 2002; Mattoo et al., 2006)

- The benefits from greater openness hinge on a minimum regulatory and institutional quality that can ensure the effective functioning of the financial sector (El Khoury and Savvides, 2006)

… leading to more competitive production

- Imported financial services can partly compensate for a weak domestic financial services sector, improving productivity in the manufacturing sector (Liu et al., 2018).

- Gains from a sound financial infrastructure are more pronounced for firms that are further from the industry-level technological frontier, notably in developing countries (Bas and Causa, 2013)

Case study: Financial services in Kenya (1)

- Kenya has expanded its financial sector, boosted trade in financial services, and become a regional leader and hub for financial services.

- Foreign bank participation, coupled with sound regulation, has been an important driving factor.

- At the end of 2017, Kenya’s banking sector comprised 42 commercial banks, of which 15 were fully foreign-owned and accounted for 30.1 per cent of total banking assets (WTO, 2019).

- Kenya’s banks and financial institutions have pursued vigorous expansion over the last years, with 9 banks having subsidiaries operating in other East African Community (EAC) countries.

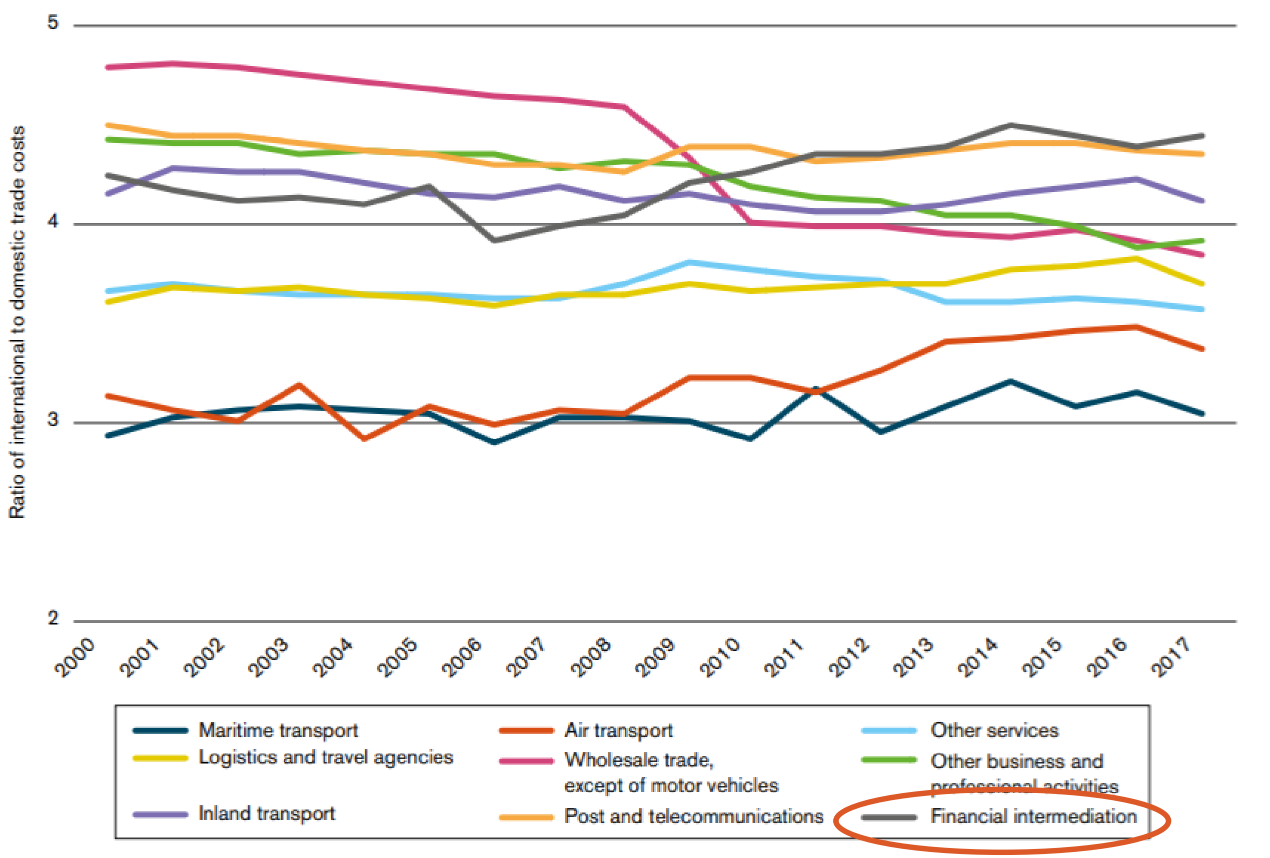
Case study: Financial services in Kenya (2)

As a result:

- Financial services have become an important part of the economy
  - the sector now accounts for 2.8 per cent of Kenya's total formal employment
  - and 4.6 per cent of total services exports (Hoekman and te Velde, 2017).
- This transformation has allowed Kenya to generate high-skilled and high-wage jobs in the financial sector.
- Kenya has also succeeded in improving financial inclusion through the expansion of the mobile banking sector.

The cost of trading financial services across borders has been increasing

Figure D.3: Services sectors with low trade costs
Trade costs in services by sector, 2000-17



Source: WTO estimates.

Note: The results are based on data for 43 economies. See Appendix D.1 for data sources and an explanation of the estimation methodology. The value of trade costs represents the ratio of international to domestic trade costs. "Other services" include community, environmental, cultural and personal services.

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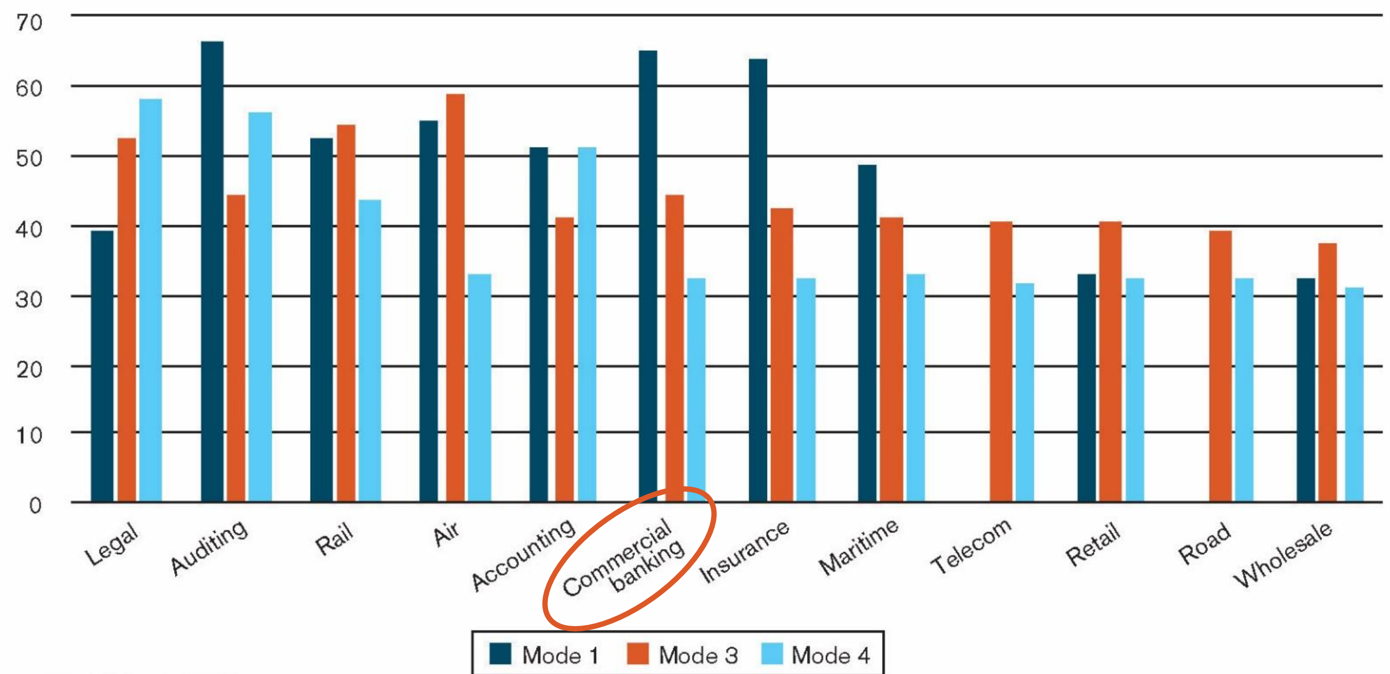
Commercial banking has one of the highest trade restrictions index on cross-border supply

Figure D.8: Services trade restrictions vary by mode of supply
Services Trade Restrictions Index by sector and mode of supply, 2016



Source: World Bank STRI.

Note: The World Bank STRI ranges from 0 to 100. The STRI for mode 1 is not computed for the following sub-sectors: road transport, telecommunication, maritime cargo-handling, storage and warehousing, legal host country advisory and representation services. In other words, there is no mode 1 STRI for those subsectors.

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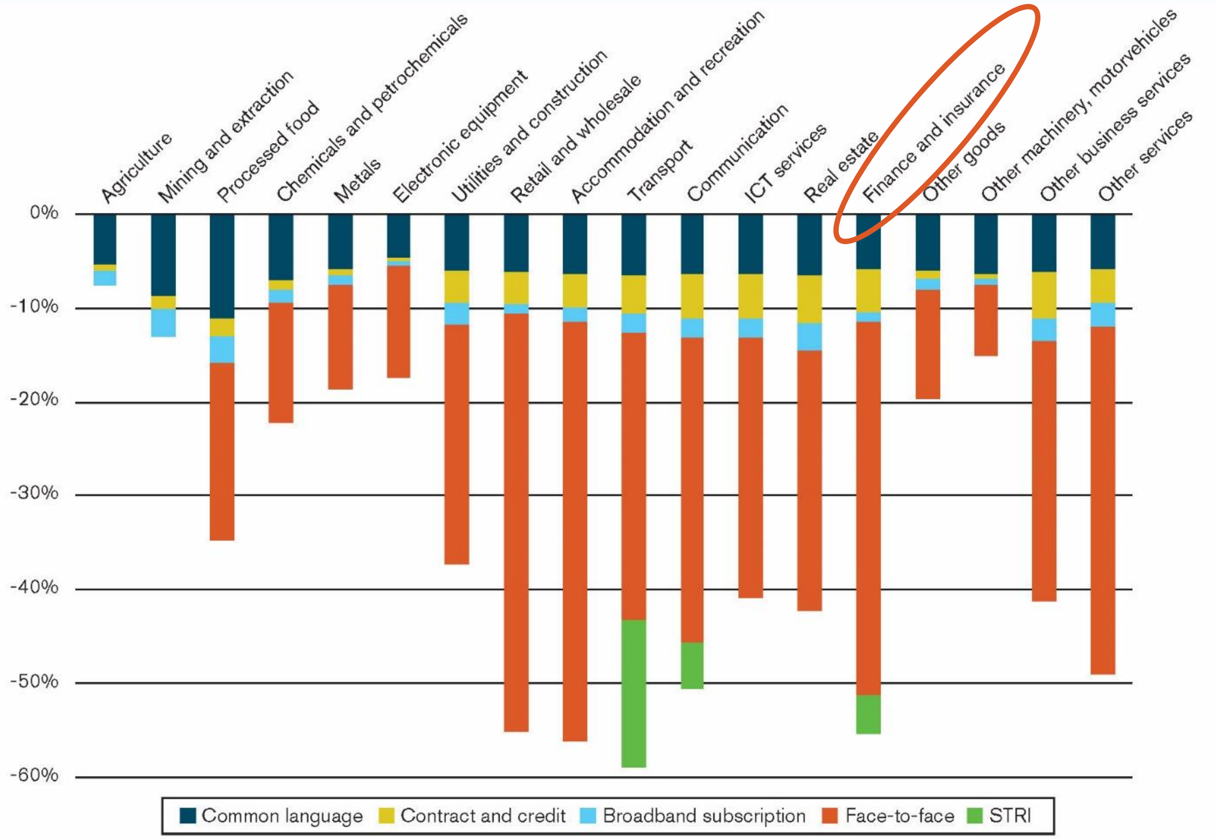
Reductions in the cost of face-to-face communication are projected to greatly decrease the cost of trading financial services

Figure D.33: New technologies are projected to reduce trade costs in different services sectors

Ad valorem equivalent trade cost reductions 2018-40 – different trends (sector averages)



Source: WTO calculations based on various methodologies as described in the text.

Notes: Figure D.33 displays the contribution of different variables to the reduction in trade costs in the different scenarios. Common language, credit and contract, and broadband subscription measure the reduction in trade costs because of a reduced impact of the absence of a common language, poor credit and contract environment, and a low number broadband subscriptions, respectively. Face-to-face measures the reduction in trade costs, because of a reduced importance of face-to-face contact for trade costs. STRI measures the reduction in trade costs because of an improvement in services trade regulation. The methodology is described in the text. Note that percentage reductions are not additive. The corresponding numbers are in Appendix Table D.6

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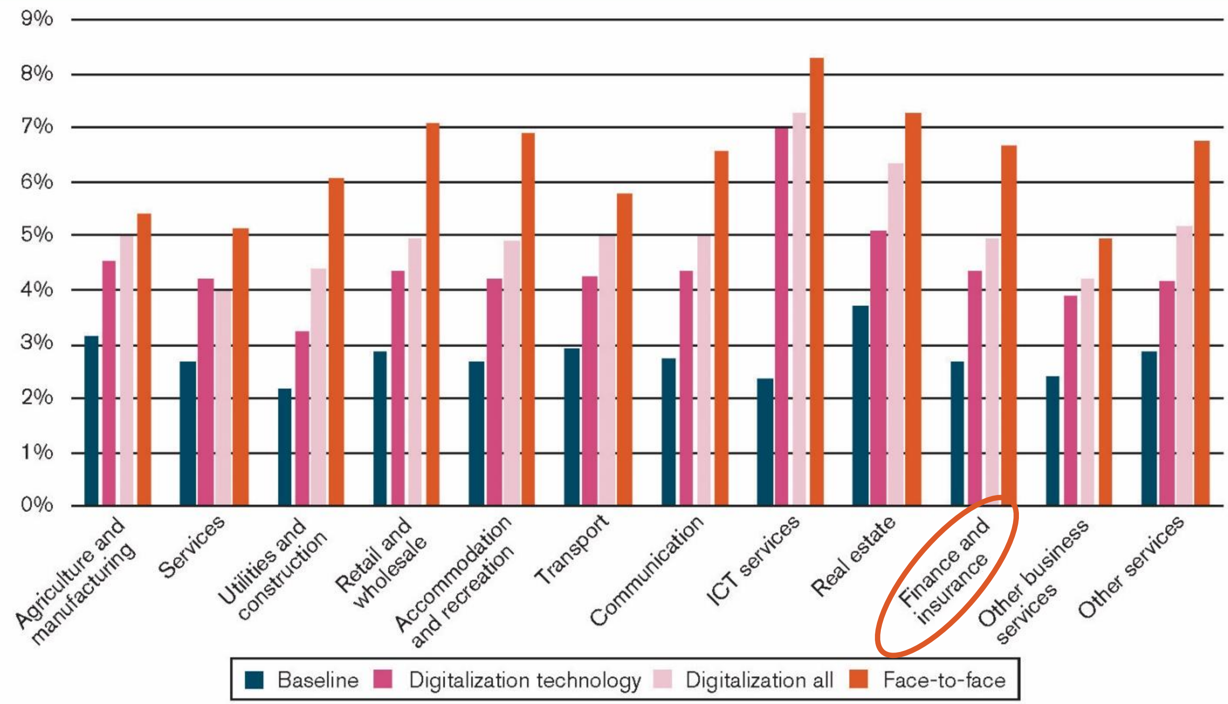
Under such scenario, financial services are projected to be among the fastest growing sectors

Figure D.35: Projected trade growth is highest in ICT services
Annual real trade growth in different services sectors, 2018-40



Source: Simulations with WTO Global Trade Model.

Notes: The figure displays the average yearly real trade growth from 2018 until 2040 under the different scenarios in the different sectors. "Agriculture and manufacturing" and "Services" are calculated based on trade-weighted averages. The digitalization scenario has been split into two in this figure. The "digitalization technology" scenario contains additional productivity growth and a more intensive use of ICT services in production. The "digitalization all" scenario adds reductions in trade costs associated with digitalization, such as an extension of broadband coverage. The face-to-face scenario, cumulative to the digitalization scenario, includes trade cost reductions because of the reduced importance of face-to-face interaction.

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International co-operation in financial services

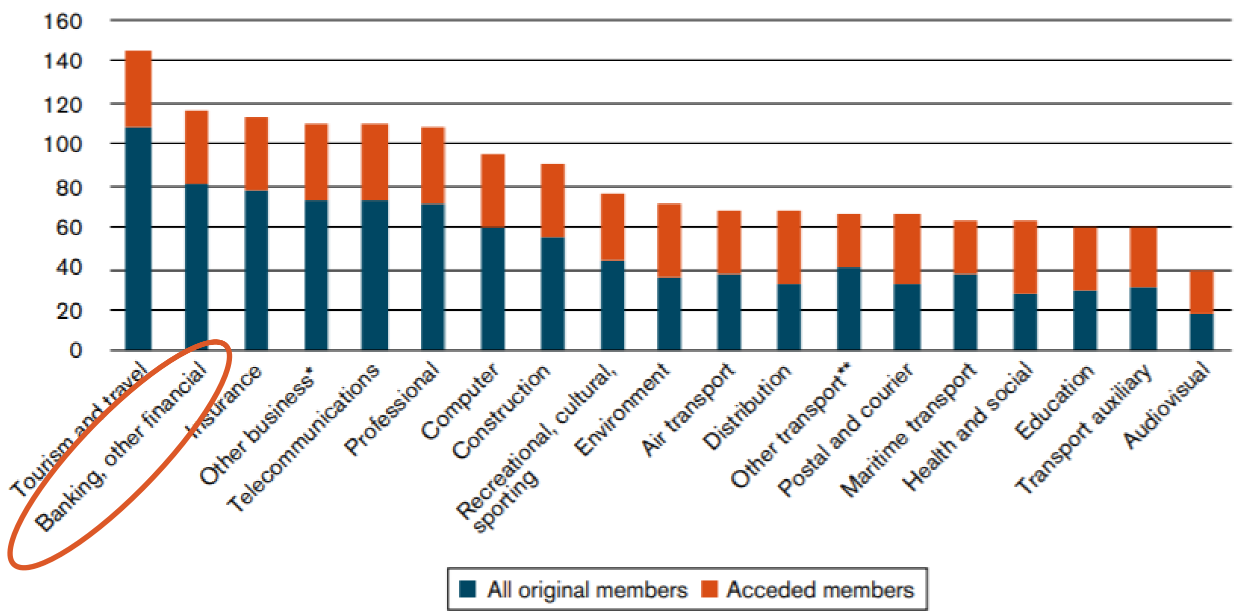
- The WTO negotiations on financial services in the late 1990s is one services example of how plurilateral negotiations dedicated to a particular sector or topic can succeed, be integrated into an existing agreement (the GATS) and be applied on an MFN basis.

- The negotiations were first concluded at the end of July 1995. While many members had improved their previous commitments, the results were still considered unsatisfactory.
  - 66 members had made commitments on financial services by the entry into force of the WTO, of which 29 were improved during the 1995 negotiations

- Negotiations were successfully concluded in December 1997. The improved commitments entered into forced on 1 March 1999.
  - 89 members had made commitments on financial services

Financial services have a relatively high level of commitments in GATS

Figure E.4: GATS commitments vary by sector
Number of members with specific commitments, acceded members and other members by sector



Source: WTO Secretariat, May 2019.

Note: European Communities (12), which is used given that a number of the EU (25) members acceded to the WTO after 1995, are considered as one.

* Business services other than professional and computer and related services.

** Transport other than maritime, air, and auxiliary services to all modes of transport.

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Regulatory cooperation in the financial sector: Fintech (1)

- Technology-enabled innovation in financial services (so-called **Fintech**) has grown rapidly in the past decade, allowing for the emergence of such services as mobile payments and peer-to-peer lending.

- Fintech presents many challenges due to regulators' limited technological expertise which makes it difficult to assess innovative business models and practices, and their impact.

- An increasing number of regulators are responding to such challenges by introducing innovative regulatory approaches, including so-called **innovation offices** and **regulatory sandboxes**

Regulatory cooperation in the financial sector: Fintech (2)

- **Innovation offices** are often the first approach to improve regulator-innovator dialogue and are a good first option for resource-constrained regulators in emerging and developing economies, since they are easier to implement and operate than other regulatory initiatives.
  - More than 30 jurisdictions around the world are currently operating this type of office.

- Innovation offices may also facilitate international cooperation on regulatory matters through bilateral cooperation agreements.
  - The UK Financial Conduct Authority (FCA)'s Innovate as established in 2014 and has signed cooperation agreements with counterparts in Australia, Canada, China, Hong Kong (China), Japan, the Republic of Korea, Singapore and the United States. These agreements promote information-sharing on emerging trends in financial innovation between authorities and facilitate referrals of innovators from one market to another, thus reducing regulatory barriers to entry in foreign markets

Regulatory cooperation in the financial sector: Fintech (3)

- A **regulatory sandbox** is a formal programme that allows live and time-bound testing of innovations (e.g. new financial products, technologies, business models) with actual customers, subject to regulators' oversight.
  - The first regulatory sandbox became operational in 2016 in the United Kingdom. At the beginning of 2019, there were almost 30 jurisdictions actively implementing them.

- The sandbox concept is being explored to promote cross-border regulatory cooperation and enable innovators to gain economies of scale more rapidly on a regional or global basis.
  - Two initiatives for multi-jurisdictional sandboxes are currently under way: the Global Financial Innovation Network (GFIN), proposed in 2018 by the UK FCA, together with 11 financial regulators around the world, and the API Exchange (APIX), launched by the Association of Southeast Asian Nations (ASEAN) Financial Innovation Network (AFIN) (UNSGSA and CCAF, 2019).

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BANK FOR INTERNATIONAL SETTLEMENTS

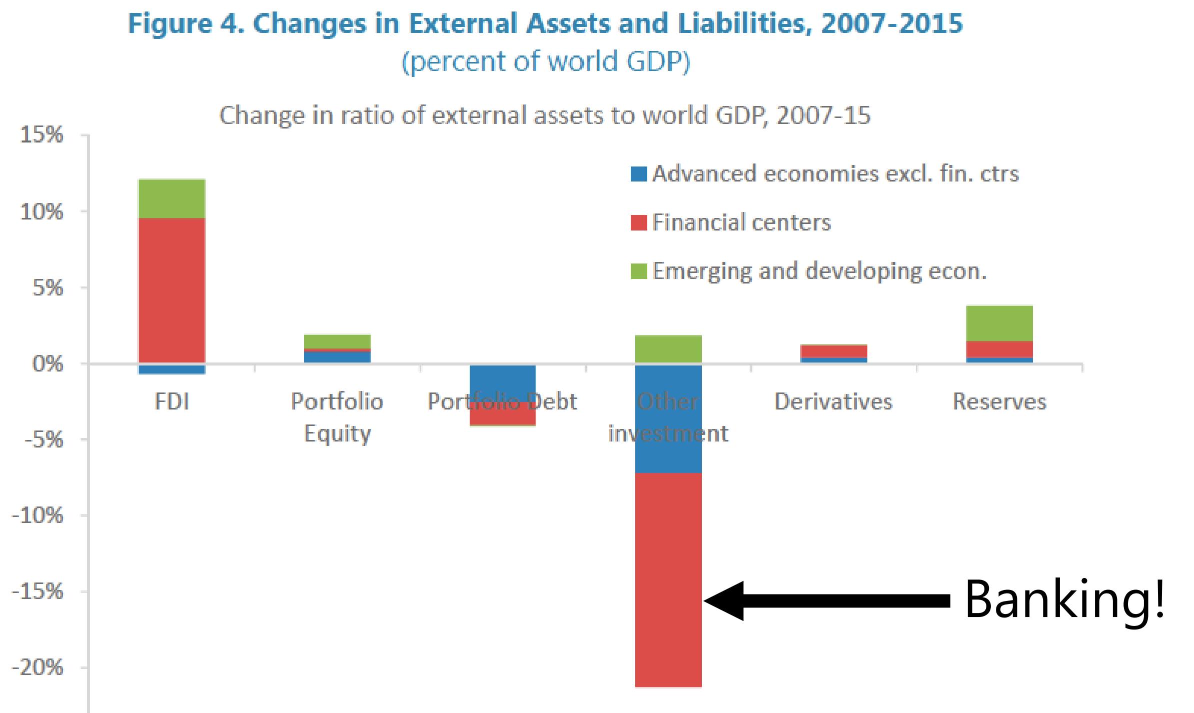
Banking (de)globalisation and Europe

Goetz von Peter
Principal Economist, Bank for International Settlements

SUERF and Belgium Finance Forum Conference
Brussels, 15 November 2019

The views expressed are those of the authors and do not necessarily reflect those of the BIS.

Deglobalisation mainly in banking

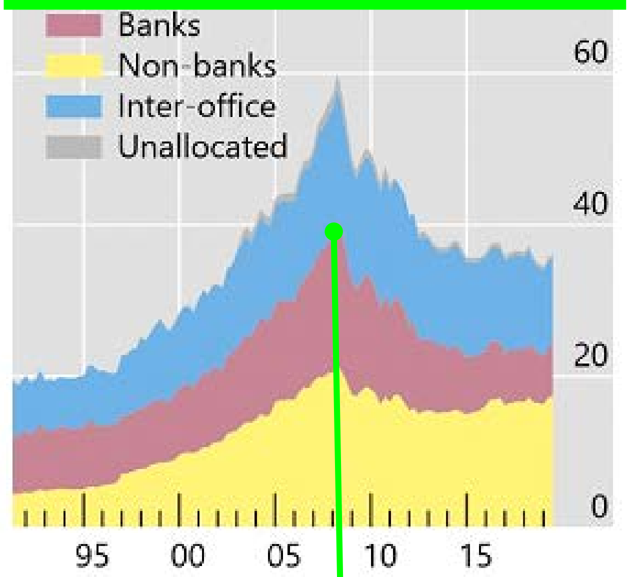


Graph from Lane and Milesi-Ferretti (2017)

- External assets and liabilities point to *financial deglobalisation*
- Lane & Milesi-Ferretti (2017): XB/GDP came to halt post-crisis
- Is it a *global* phenomenon? And is it a trend??

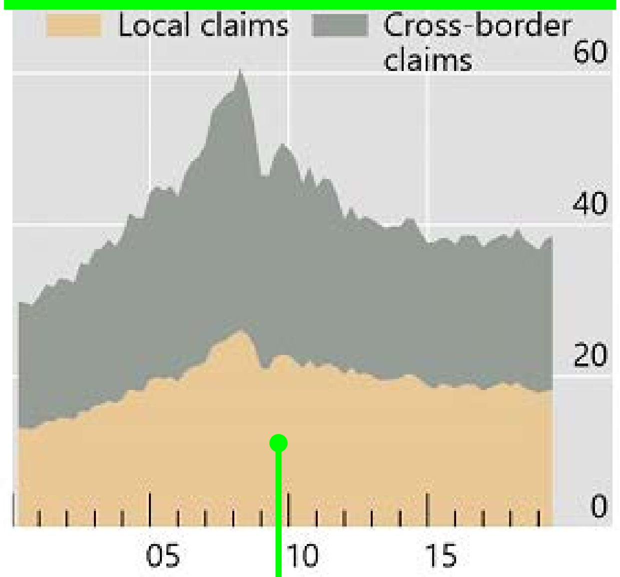
Focus on Europe: Deglobalisation with a regional origin

Locational cross-border bank claims[1]



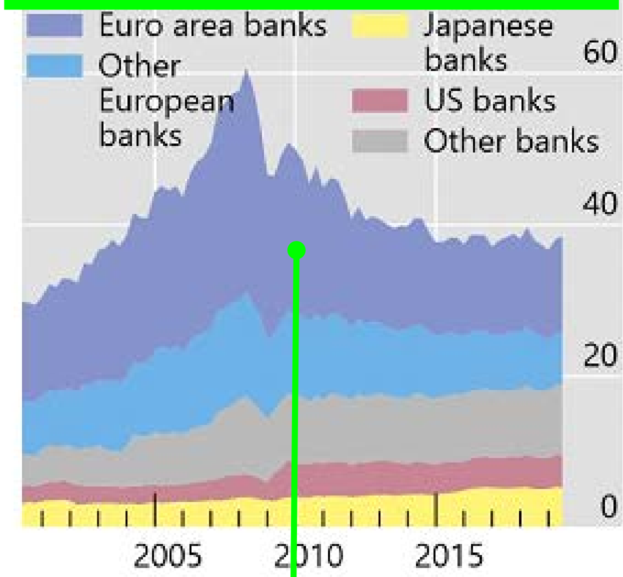
Cross-border positions fell – where, and whose?

Consolidated foreign bank claims[2]



Cross-border fell much more than local positions abroad

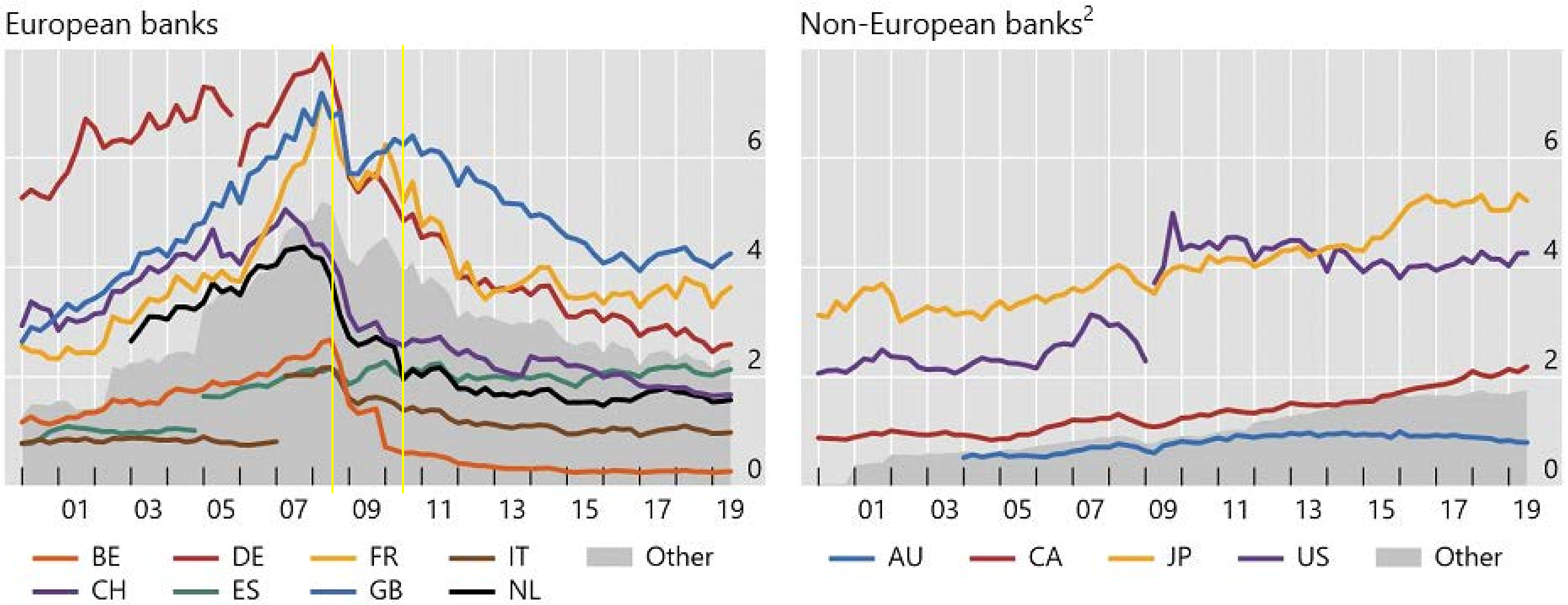
Foreign claims, by banking system[2]



Nationality split reveals collapse in positions of European banks (everywhere)

"Who"

- European banks (+CH –ES) contracted in the wake of crises
- Other nationalities continued on path of international integration
- Empirical work shows a strong nationality effect in asset shedding



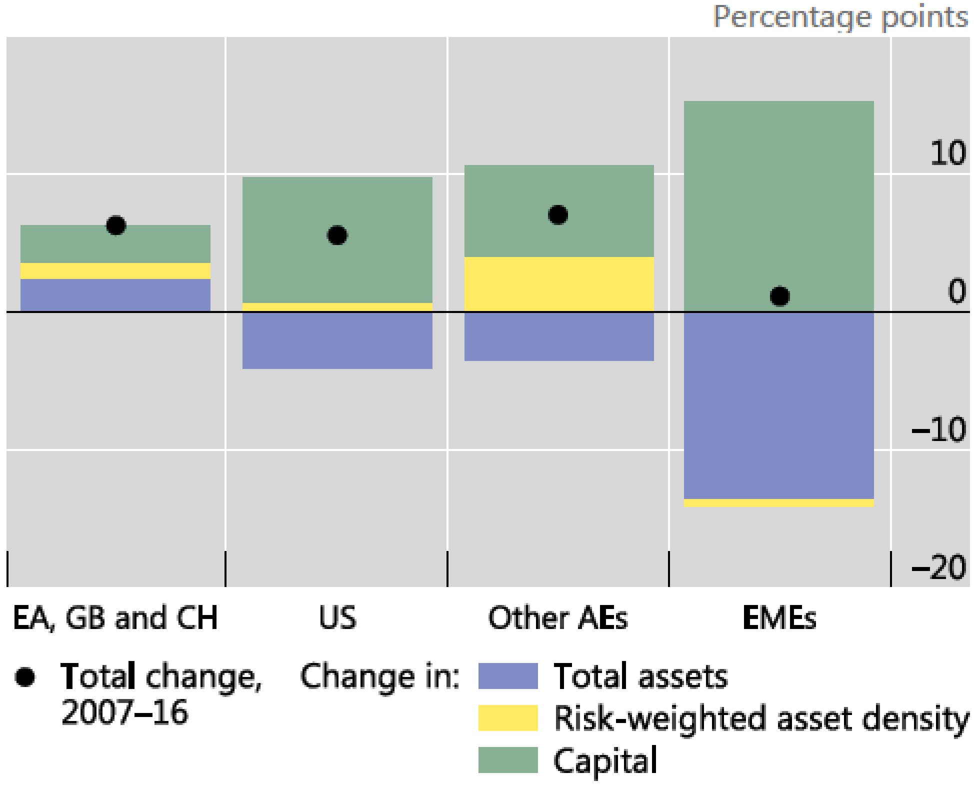
"Why"

- Unsustainable expansion led to risk-laden balance sheets
- Post-crisis pressure to deleverage… with asset-shedding…
- Other post-crisis trends reinforce this CGFS (2017)

"How"

- Foreign assets (abroad) to protect domestic market
- Home bias as foreign claims grow at slower pace or shrink
- Nationalisation, Rescues, Risk-aversion

Capital to risk-weighted asset change, 2007–16[1]



BANK FOR INTERNATIONAL SETTLEMENTS

And now?

Maybe deglobalisation was not really global, nor necessarily a trend.

- Due to European banks' deleveraging foreign operations
- If EU banks were overstreched, will they come back?
- For more on this issue: McCauley, Bénétrix, McGuire and von Peter (2019) Financial Deglobalisation in Banking? *Journal of International Money and Finance 94*

Yet other developments are probably permanent:

- Post-crisis regulatory framework
  - Basel III completed: size & quality of capital buffers, RWR
  - G-SIB framework & surcharges, TLAC, resolution regimes
  - Europe (broad) has 13 G-SIBs: CET1↑ PD↓ also SI↓
- Lower profitability / overcapacity reflected in price-to-book ratios
- Financial innovation & competition from big tech firms
- And the EU faces major challenges: e.g. Brexit & financial services

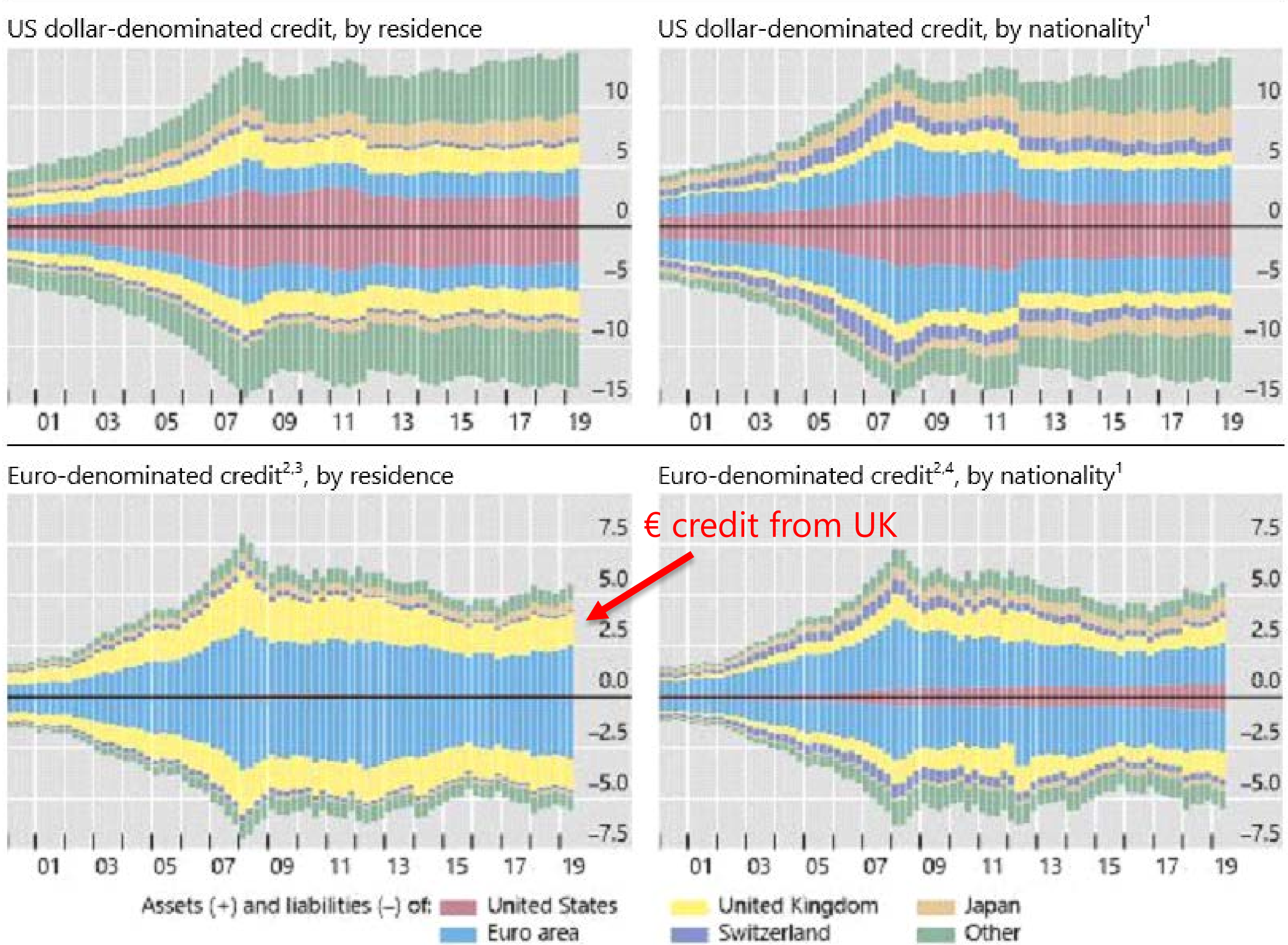
London is the largest global banking hub

Reflects UK financial services

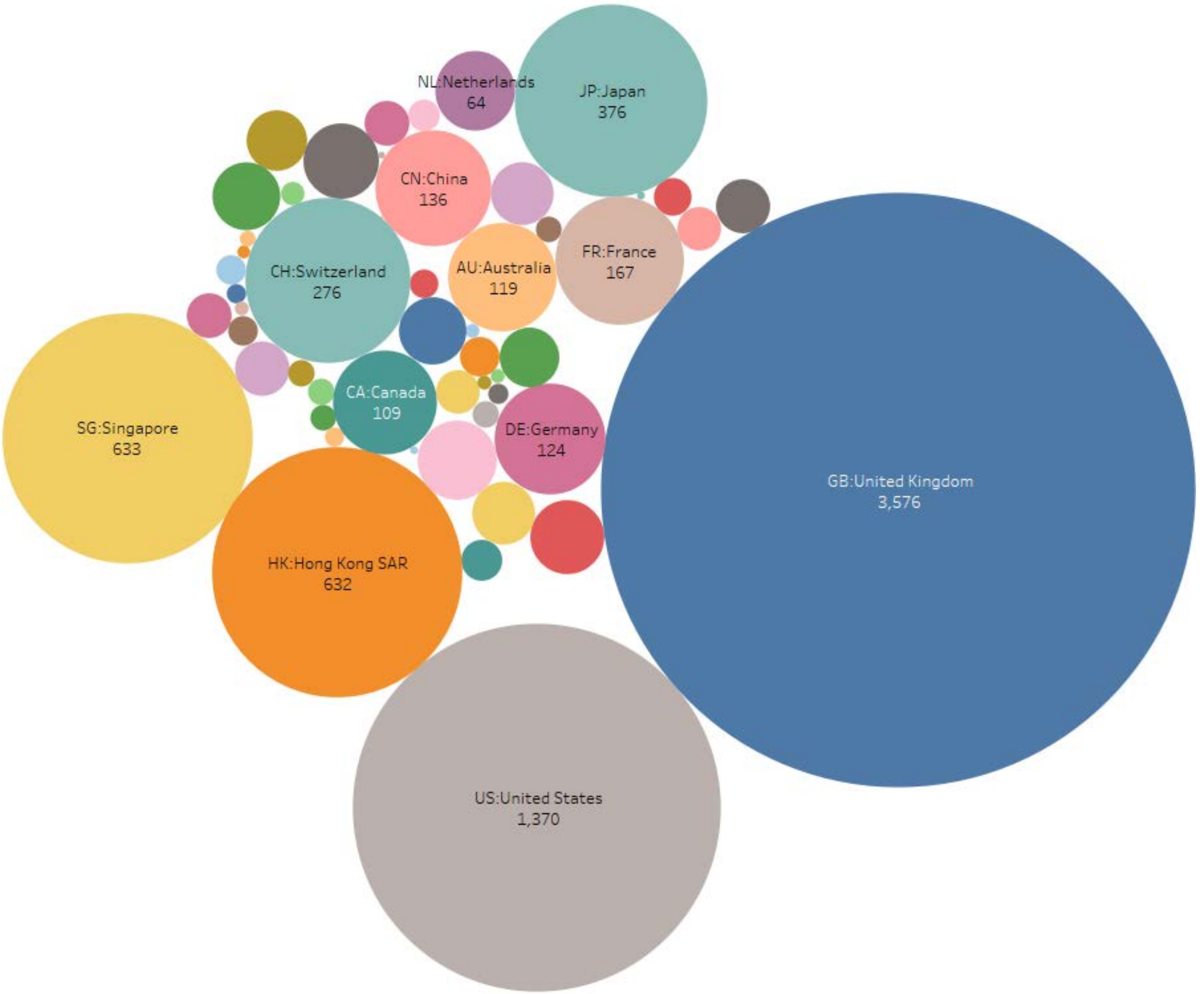
London as a global financial center

Global cross-border bank credit

By currency, in USD trillion



The UK as a global financial center – foreign exchange turnover

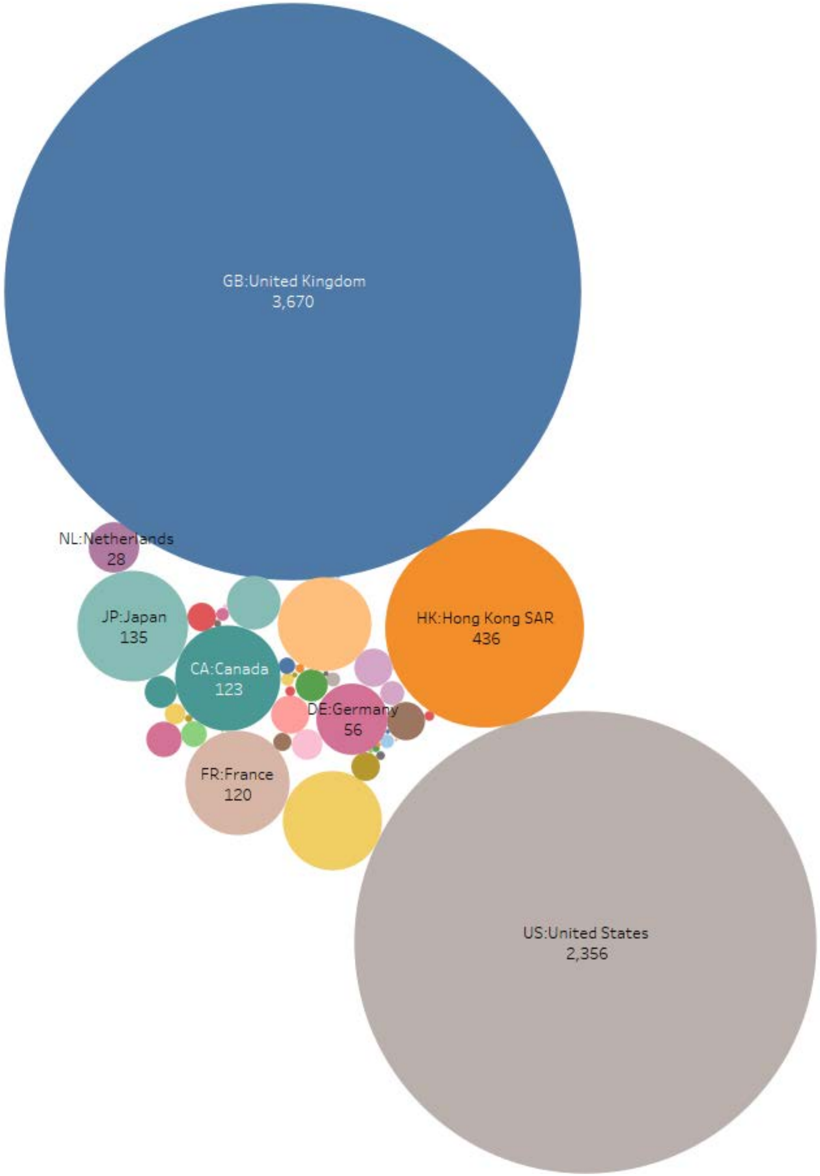


Source: BIS Triennial Survey

April 2019 average daily turnover in USD billions, all instruments, net-gross basis

OTC interest rate derivatives

…mostly cleared (LCH)

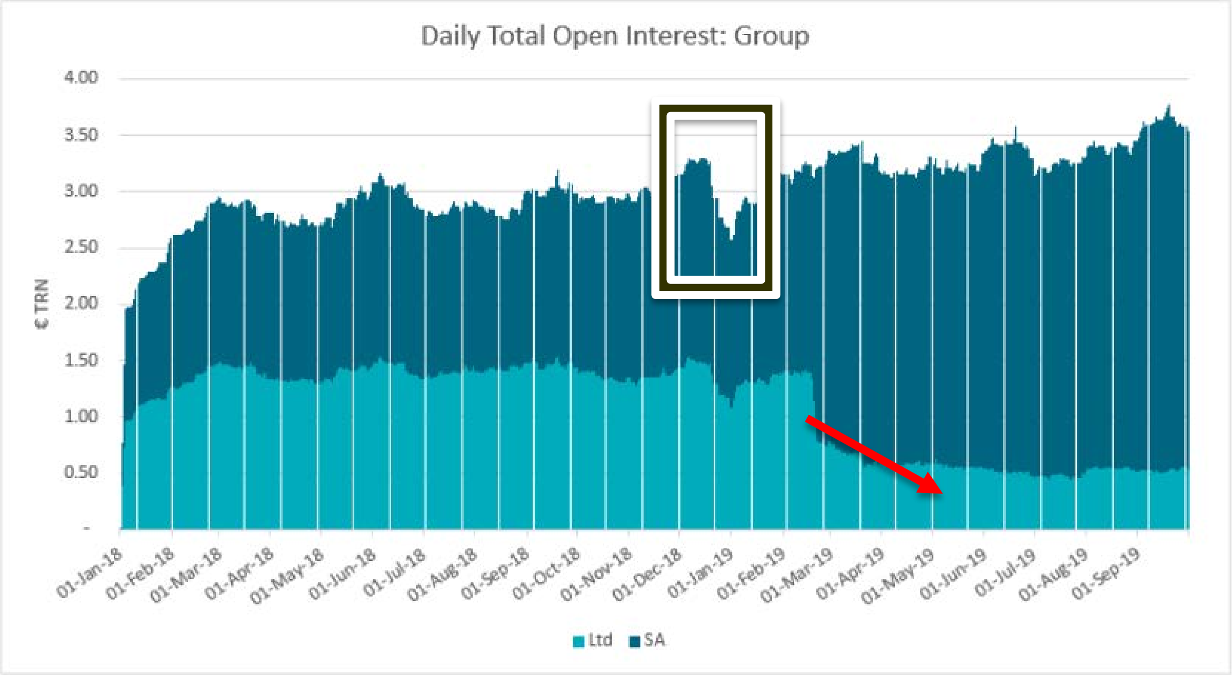


Source: BIS Triennial Survey

April 2019 average daily turnover in USD billions, all instruments, net-gross basis

Cleared repo: Brexit-related shifts

RepoClear Total Gross Outstanding (in €trn)



- Within LCH (LSE Group) – more disruptive for other services

Source: LCH.com, follows ICMA survey methodology. EU €8tr in Repo+RR, about ⅓ cleared mainly LCH

Brexit-related uncertainty affects EU27

- AfterBrexit, coverage by EU regulatory and supervisory agreements?
- Under EU law, EU-based clearing members and trading venues may only access clearing services from UK CCPs recognized as qualifying CCPs by ESMA (after Brexit).

- Uncertainty over transitional arrangements… close-out / transfer

- Goes well beyond banking and clearing: e.g. funds industry (FT):
  - >10,000 funds available to UK investors (often managed in UK)
  - Yet 7,200 are domiciled elsewhere in the EU
  - Investment Association calls for regulatory cooperation.

Between dreams and reality

Jan Van Hove
Group Chief Economist, KBC Group NV – KBC Economics
Professor of International Economics, University of Leuven

SUERF – Belgian Financial Forum Colloquium
Cross-border Financial Services: Europe's Cinderella?
Brussels, 15 November 2019 - National Bank of Belgium

5 statements

on why no more cross-border consolidation in European financial sector

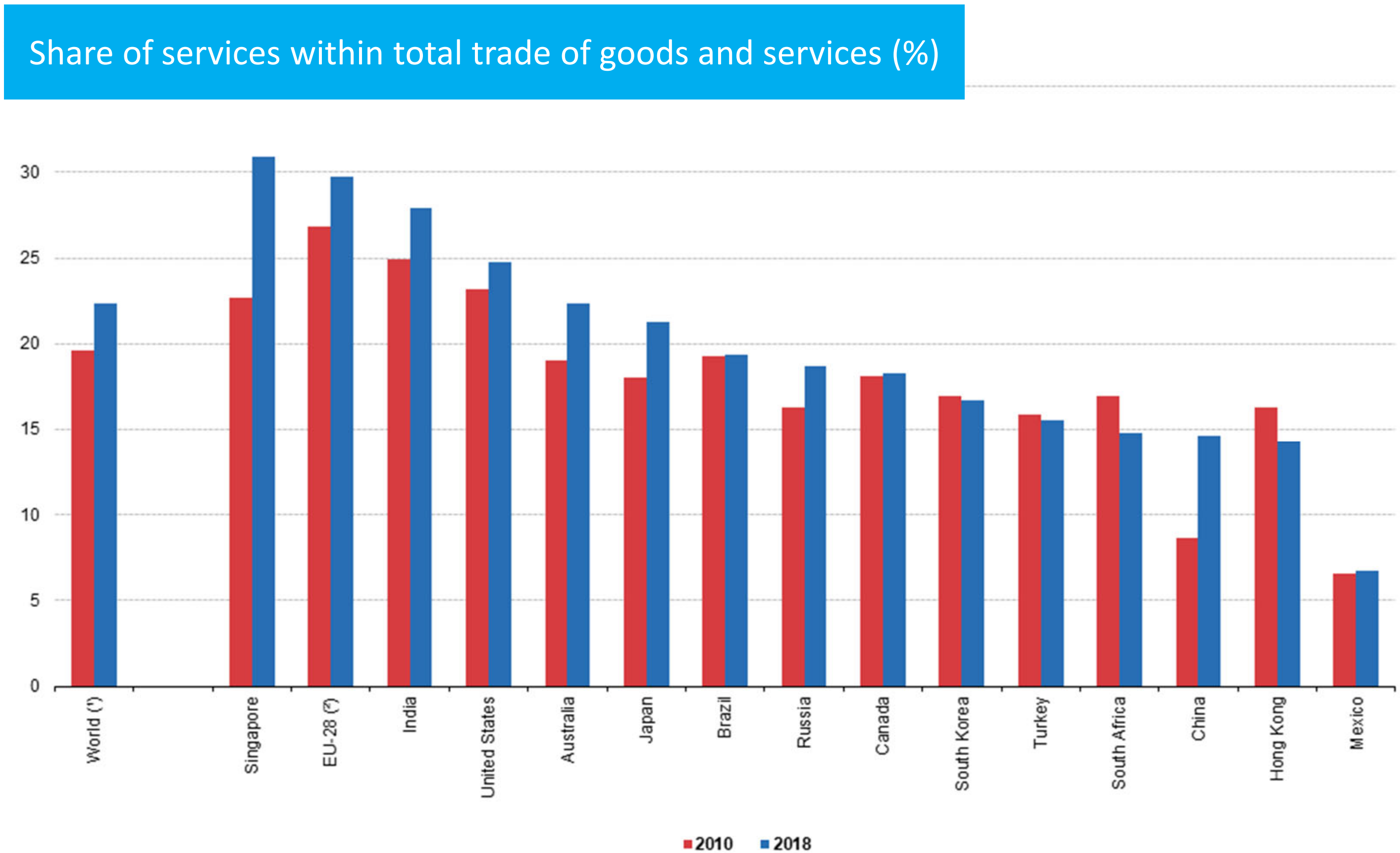
Capital Markets Union

Global competition

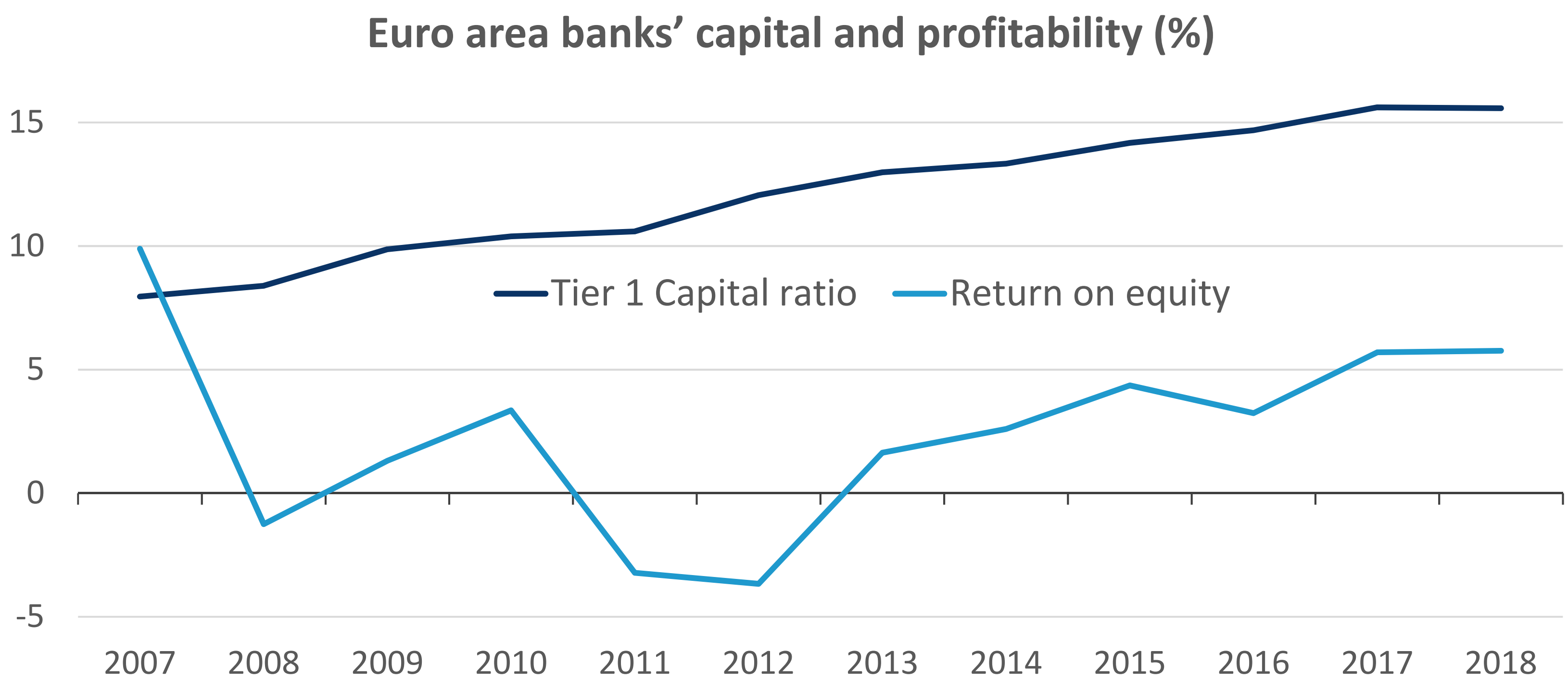
Banking Union

Economies of scale

1. International trade in services is limited in general – home bias dominates

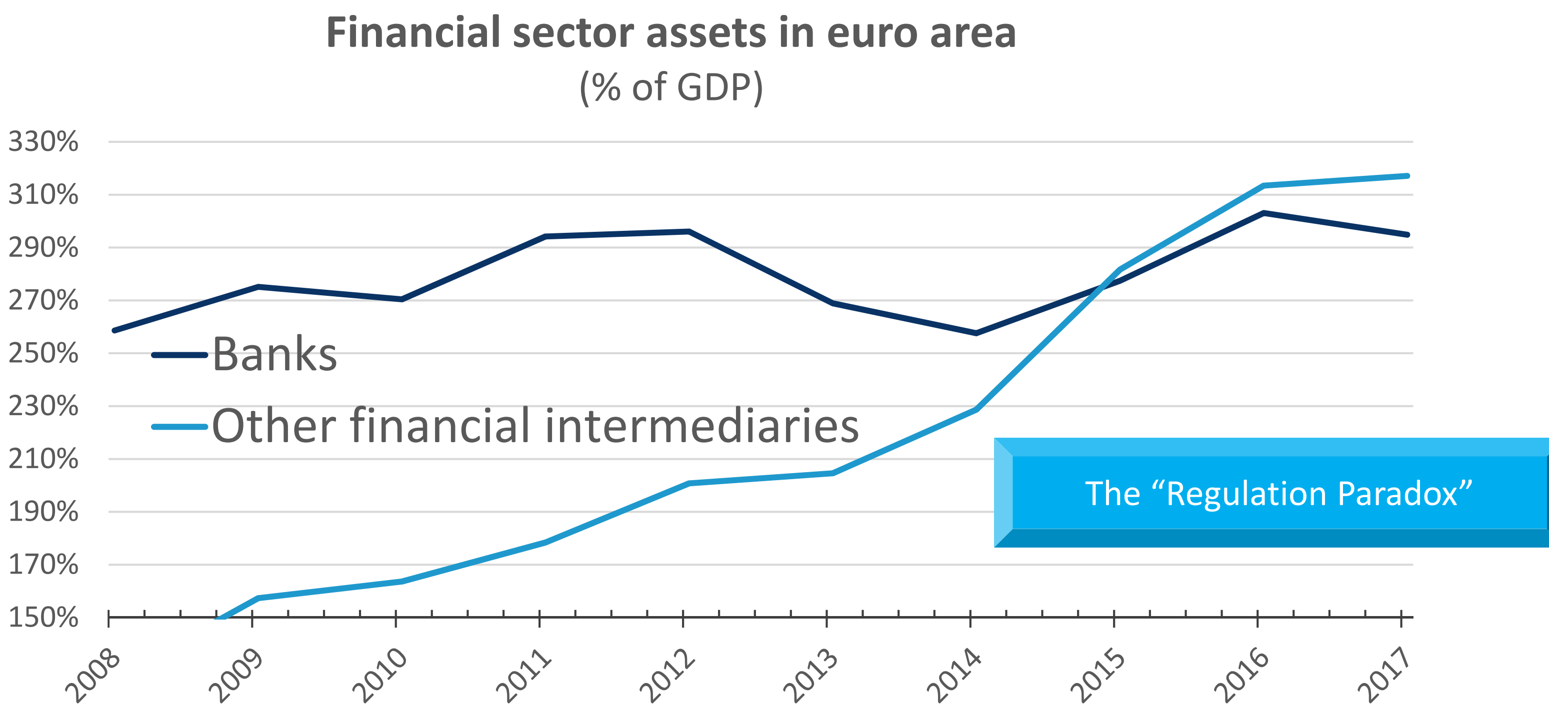


2. Profitability too low for strong M&A activity



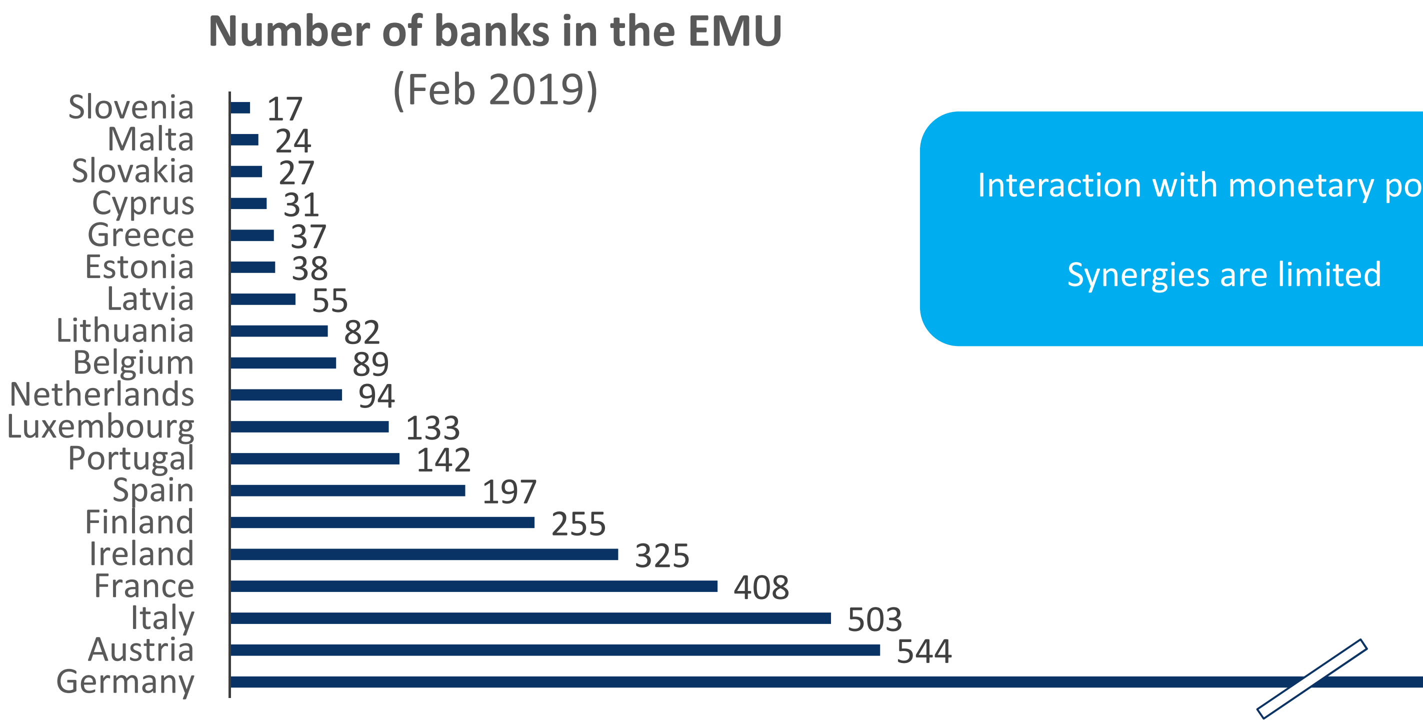
Source: KBC Economics based on ECB, Consolidated Banking Data

3. Regulatory divergence & lack of regulatory level playing field are major barriers



Source: KBC Economics based on FSB

4. Domestic 'clean-up' in the sector should come first



Source: KBC Economics based on ECB

Interaction with monetary policy

Synergies are limited

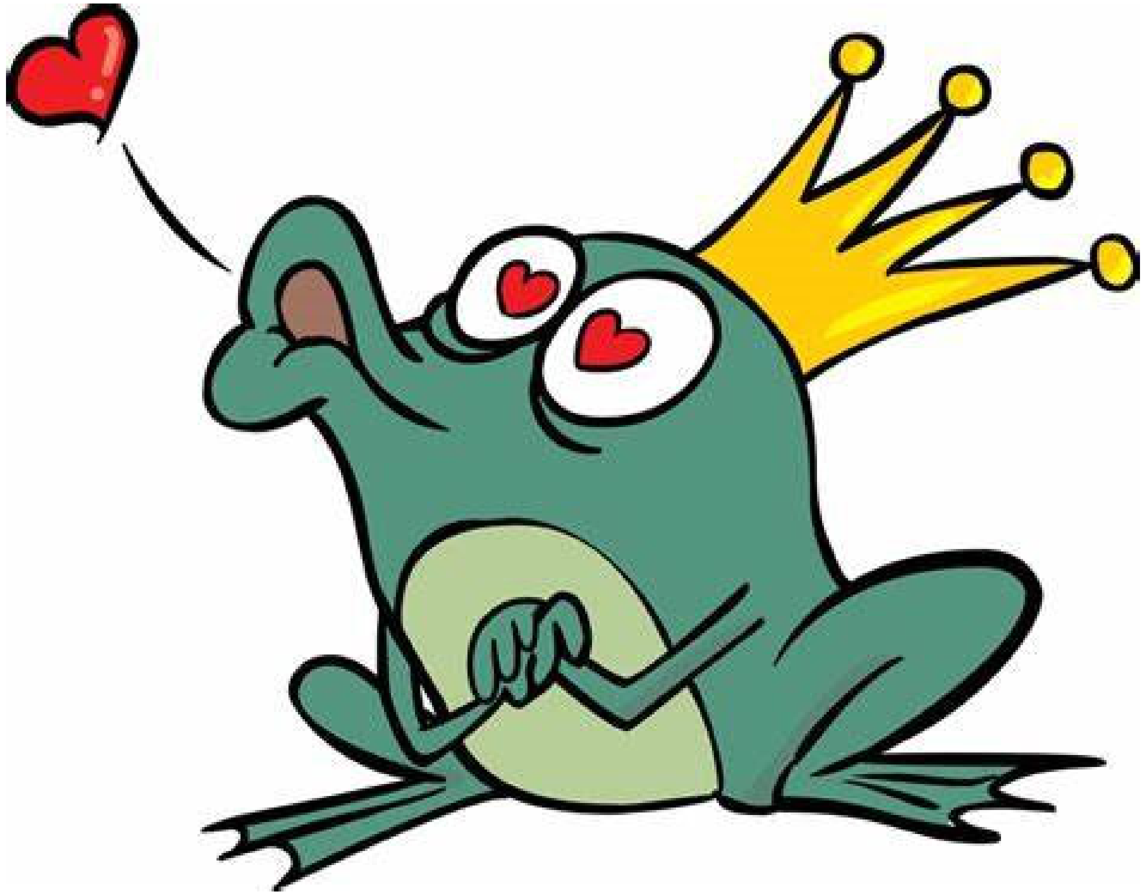
5. Currently **no business case** for cross-European consolidation in financial sector

Cost Management

Innovation

Service Diversification

Geographical Concentration



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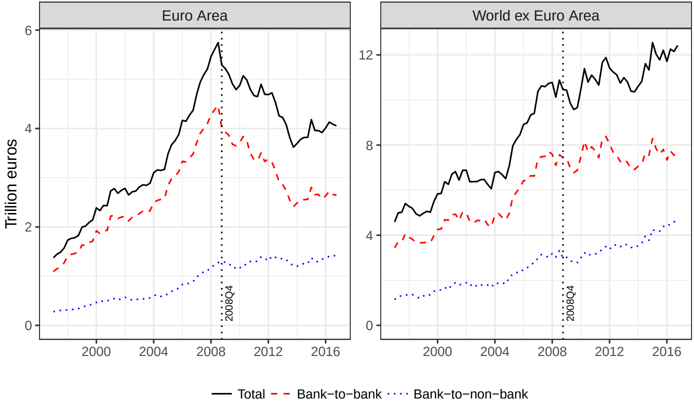
The intra and extra EU cross border financial services (in)activity: Europe's Cinderella?

Remarks by Mathias Hoffmann (University of Zurich)

Crossborder-banking flows by borrowing sector



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Interbank vs. deep banking integration

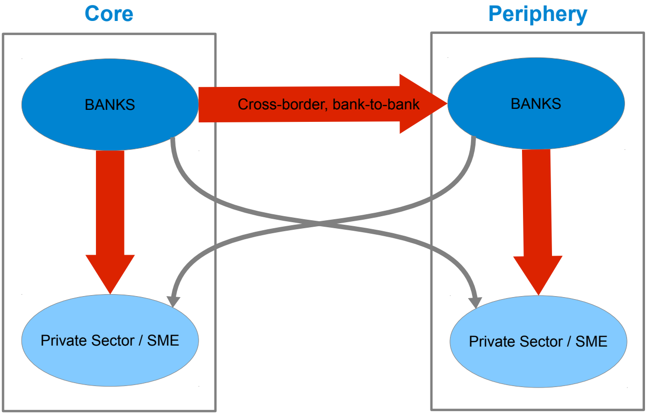


Figure: Source: Hoffmann, Maslov, Sørensen, CEPR DP 13691

Europe's flawed banking integration: getting all the costs without any of the benefits

⇒ Interbank integration...
  - ... leaves domestic real sector fully exposed to local banking sector shocks
  - ... while increasing exposure to external banking shocks

⇒ Breakdown in interbank integration during the global financial crisis exacerbated macroeconomic asymmetries and contributed to the failure of risk sharing mechanisms between member countries.

⇒ What is needed is deep (bank-to-real sector) integration (cross-border lending or cross-border branching)

Banking integration gone wrong: real effects

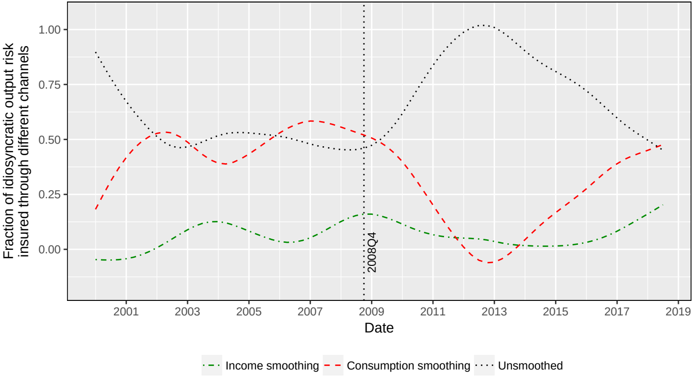


Figure: The decline in macroeconomic risk sharing during the Eurozone crisis (source: Hoffmann et al., IMF Economic Review, July 2019)

Some lessons from the United States

Situation in the U.S. until the 1980s similar to Europe today.

- $\Rightarrow$ Interbank market fully integrated between states.
- $\Rightarrow$ Virtually no deep integration, though. Cross–border direct lending and cross-border branching were prohibited by state laws.
- $\Rightarrow$ Dismantling of these barriers during the 1980s led to big cross-border mergers and eventually to cross-border branching.
- $\Rightarrow$ Academic literature documents positive effects for access to finance of SMEs, higher growth, improved and more robust interstate risk sharing.

How to move forward?

Barriers to entry in Europe today are not *de iure*, but exist *de facto*:

- ... regulatory fragmentation (supervision, resolution mechanisms, deposit insurance)
- ... political economy ('national champions', role of public and regional banks)

What to do about it?

A truly complete banking union: common supervisory mechanism and resolution mechanisms also for non-systemic institutions, common deposit insurance

Encourage cross-border mergers, e.g. by lower risk weights for geographically diversified holdings of loans

Common credit registries, harmonization of bankruptcy laws ...

Cross-border consolidation in Europe

SUERF and BFF Conference

15 November 2019 - Brussels

Gonzalo Gasós

Head of Prudential Policy and Supervision

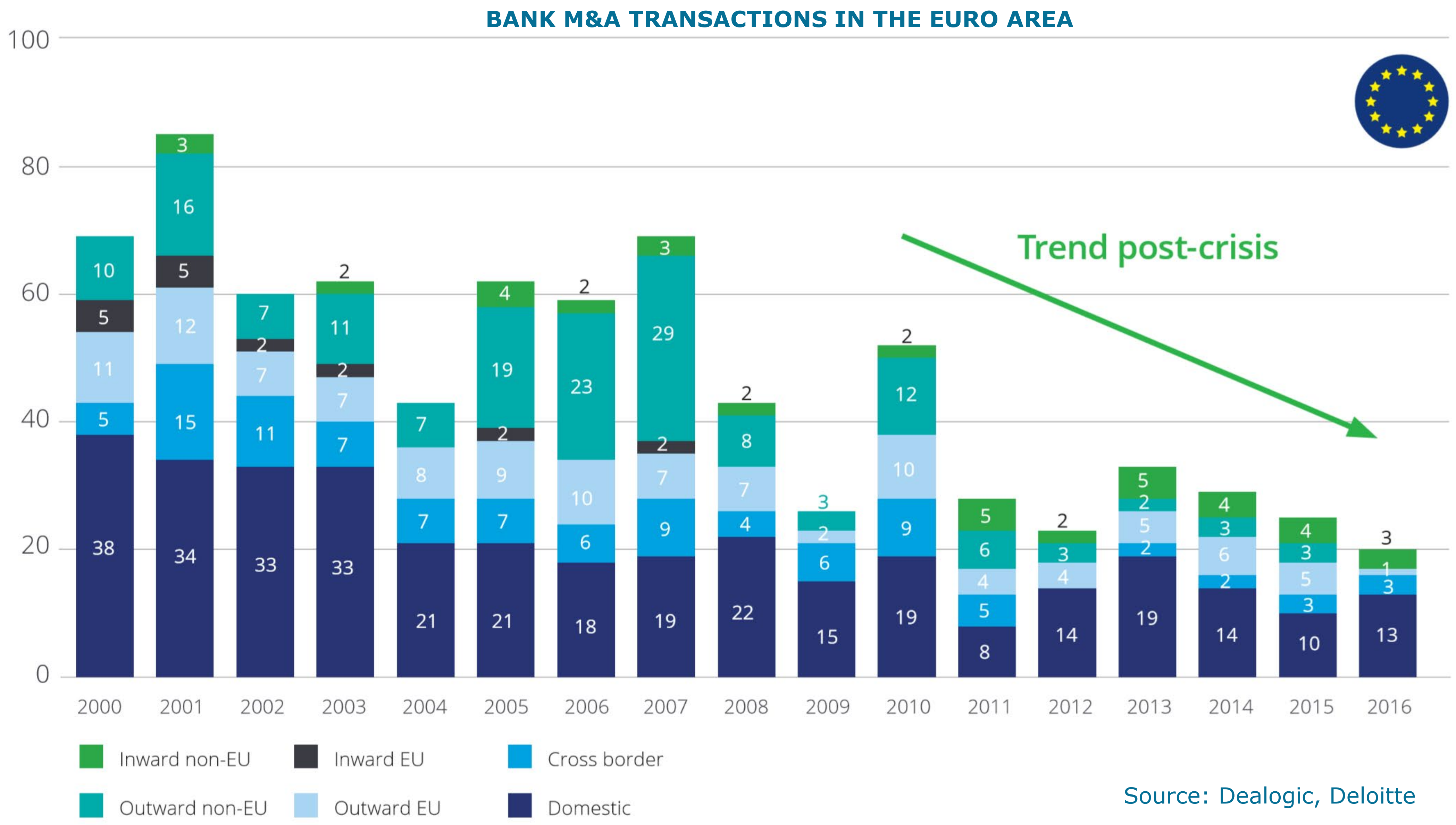
EBF European Banking Federation

Cross-border consolidation in Europe

Perspective of 3 decades of European cross-border banking

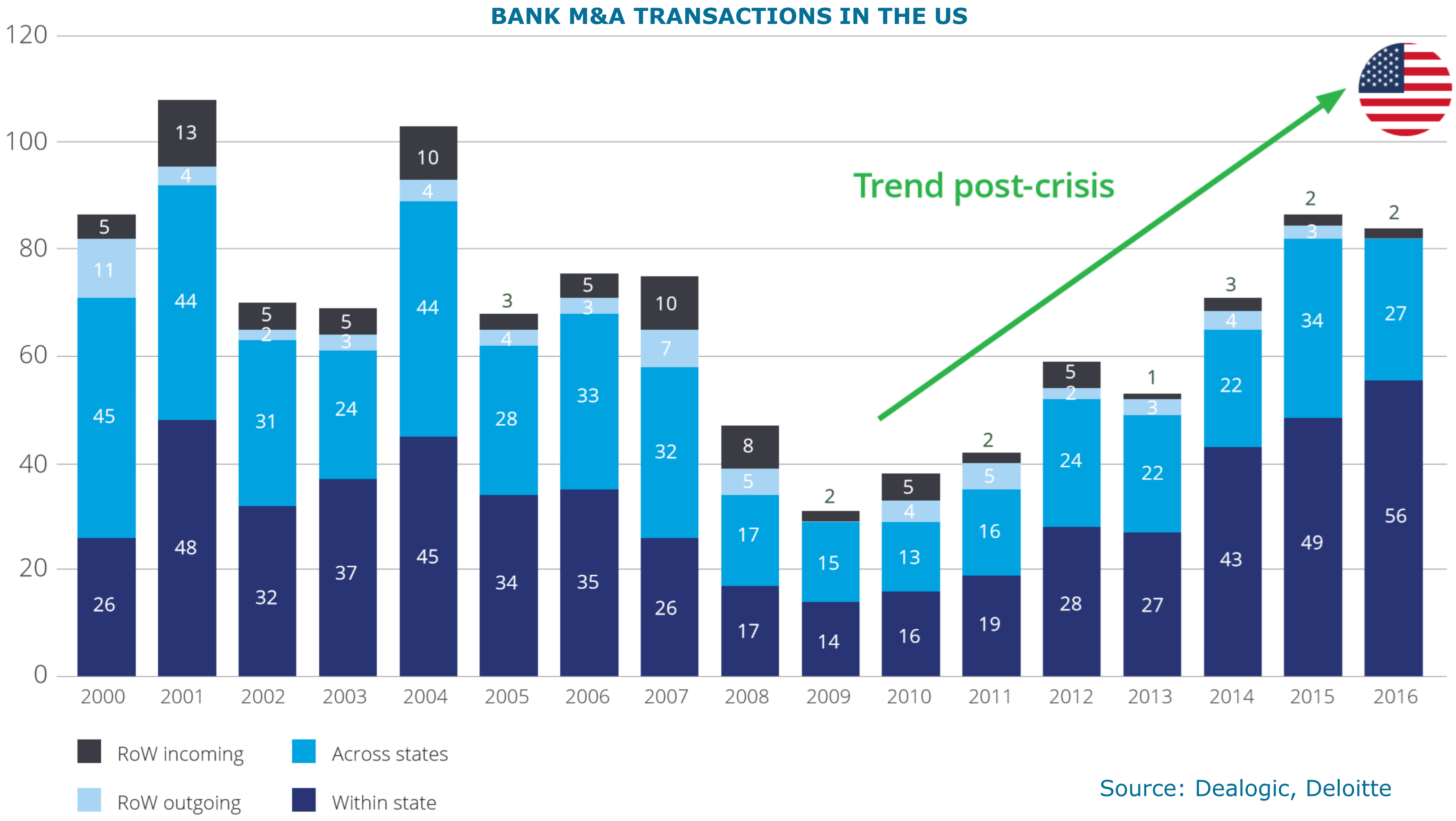
- Second Banking Coordination Directive – 1989
  - Single Banking Licence – 1993
  - Home country supervision model
- Eurosystem - 1999
  - Originally 11 Member States increasing to the current 19
  - However no unfettered movement of liquidity in practice
- Financial crisis - 2007
  - Sudden end to the European banking integration process
  - Regulatory reform at the top of the agenda… for 12 years!
- Banking Union – 2014 onwards
  - Development of cross-border supervision in the Eurozone
  - However banks stay in domestic markets

Cross-border consolidation in Europe



Source: Dealogic, Deloitte

Cross-border consolidation in Europe



Source: Dealogic, Deloitte

Cross-border consolidation in Europe

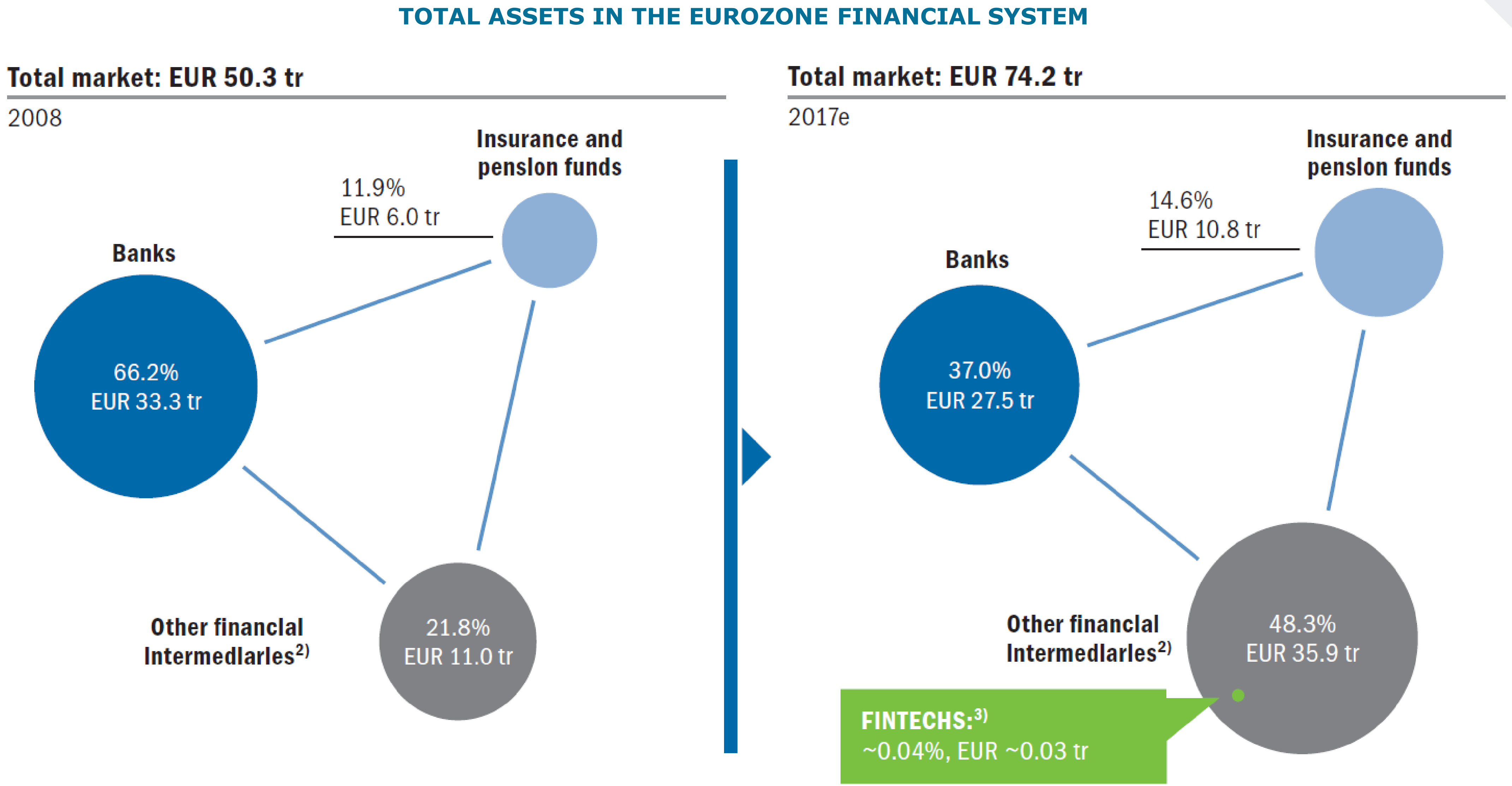
From cross-border bank consolidation

- Cross-border bank consolidation was an objective of the Banking Union
- So far only national transactions of significance

To cross-sector asset reallocation

- In the meantime, financial assets are moving away from the banking regulated sector which relative share is declining at a startling rate

Cross-border consolidation in Europe



Source: ZEB

Cross-border consolidation in Europe

Regulatory disincentives to banking consolidation in Europe

- Ring-fencing of liquidity
- Capital buffers at national discretion
- G-SIB added cost of capital
- Internal MREL
- Disparate insolvency regimes
- Divergent national laws: corporates, taxes, AML

SUERF and Belgian Financial Forum Conference
Cross-border financial services: Europe's Cinderella?

15 November 2019 - Brussels

Gonzalo Gasós

Head of Prudential Policy and Supervision

For more info

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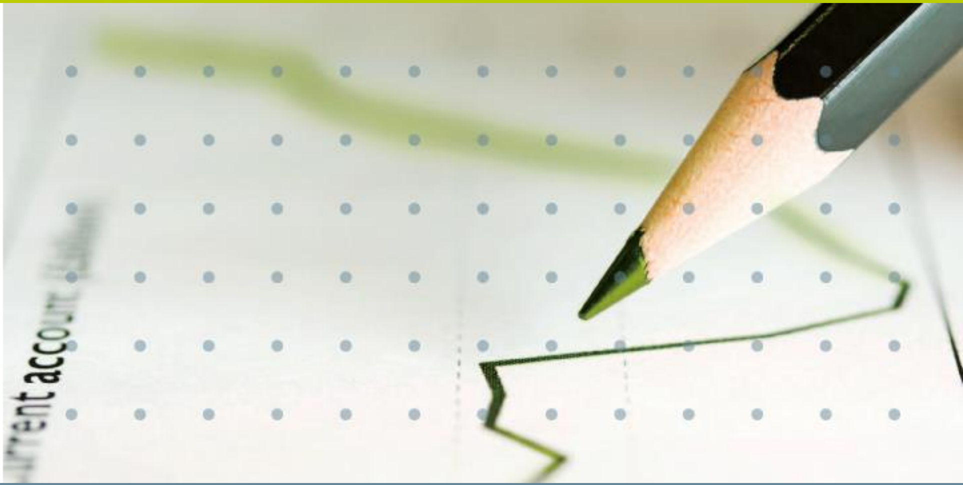
Brussels, SUERF/BFF Conference 15 November 2019

FSMA

AUTORITEIT
VOOR FINANCIËLE
DIENSTEN
EN MARKTEN

AUTORITÉ
DES SERVICES
ET MARCHÉS
FINANCIERS



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ESMA Board member and Chair of ESMA's Financial Innovation Standing Committee (FISC)
Chairman, Financial Services and Market Authority - Belgium (FSMA)
Professor (lecturer) at the ULB (University of Brussels)

Table of contents

1. CMU 2.0 (1/3)

- **Need for further development of the EU CMU in order to broaden access to finance for companies and increase investment opportunities**
  - **2018:** European companies continue to over-rely on bank lending, with 88% of their new funding in 2018 coming from banks and only 12% from capital markets
  - **Long-term impact of Brexit increases the need for a more independent EU financing capacity**
- **The EC High-Level Forum on CMU will focus on building an ecosystem for capital raising, with special focus on**
  - SMEs, including a private-public fund specialising in Initial Public Offerings of SMEs
  - **a European capital market architecture, including how new financial technologies can support this process.** E.g. reduce structural barriers among legal systems (e.g. certain insolvency procedures) and taxation procedures, how to make market infrastructure more efficient and integrated (consolidated tape?)

1. CMU 2.0 (2/3)

- **A renewed focus is needed on the demand side so that citizens can reap the benefits of the CMU, via increased retail investor participation and the diversification of the investor base, including on a cross-border basis.**

- **Key issues include**

  - Strengthening investor trust, including in cross-border investment opportunities
  - Enhancing financial literacy: can the ESAs play a coordinating role? Absent financial education, consumers and SMEs will make unwise financial decisions without a proper understanding of the risks involved or miss optimal investment or funding opportunities, especially cross-border ones
  - Supporting more suitable retail investment products, which are cost-efficient and easy to compare and understand
  - Adequate investor protection standards across all investment products
  - More efficient distribution of products, for example by digitalisation.

1. CMU 2.0 (3/3)

- **A holistic approach to the CMU by combining it with**
  - a new EU FinTech Plan
  - a strong Sustainable Finance Agenda

- **Drivers for the CMU are different from the Banking Union:**
  - in terms of supervisory architecture, the aim is ensure the appropriate level of supervision at the right level, avoiding inefficient centralization
  - supervisory model should recognize the differences between retail markets (consisting of less integrated national ecosystems) and more unified professional markets
  - enhance consistent application of the single rulebook

2. Cross-border supervision challenges (1/3)

- **A more integrated regulatory framework together with innovative online services and the digitalisation of traditional financial services have driven progress towards a more integrated market for financial services. This evolution has made it easier for financial institutions to provide services across borders and has given European consumers more choice and better access to financial services across the EU**

- **The increased cross-border provision of financial services to consumers has resulted in**
  - the need to enhance the home-host cooperation among national CAs
  - the need to strengthen supervisory convergence

2. Cross-border supervision challenges (2/3)

- **Challenges:**
  - The distribution of responsibilities between home and host NCAs is not always clear
  - With regard to supervision and enforcement issues, the most important challenges relate to the risk that home NCAs prioritise financial institutions that represent a higher risk in their own territories, with less attention paid to the activities of those institutions carried out in other Member States.

- **Possible remedies considered by the European Supervisory Authorities (2019 Joint Committee** Report on cross-border supervision of retail financial services) **include:**
  - consider reinforcing the harmonisation of Level 1 provisions governing the marketing and sale of services and products, and clearly set out and allocate responsibilities between the home and host NCAs with regard to the enforcement of consumer protection and conduct of business provisions;
  - to provide more clarity on when activities carried out through digital means fall under passporting, due to the lack of definition of cross-border provision of financial services and in the light of the continuous growth in the digitalisation of financial services;

2. Cross-border supervision challenges (3/3)

- address the topic of 'jurisdiction shopping', e.g. follow the path laid out in MiFID2, the Mortgage Credit Directive (MCD) and PSD2, which aims to prevent financial institutions opting to comply with the legal system of one Member State in order to avoid stricter standards in another Member State where it intends to carry out or does carry out the greater part of its activities;

  EU co-legislators are moving increasingly in a direction that requires a financial institution to locate in a MS where it carries out at least part of its business.

- to consider requiring a passporting regime to include the proportionate provision of information on whether the products and/or services covered by the notification are, in practice, provided;

- to ensure an effective collaboration and exchange of information between NCAs to establish appropriate preventative measures and to identify at an early stage any potential issues.

  E.g. most recently, the product intervention (PI) powers conferred on ESMA, the EBA and CAs by MiFIR, and on EIOPA and CAs in the PRIIPs Regulation, are very powerful and useful tools for protecting European consumers. PI contributed to a significant decrease in misleading cross-border marketing of complex financial products to consumers in the case of CFDs and binary options (ESMA and NCA measures). In 2019 also EIOPA used PI measures and as a result a group of products were removed from the market.

3. Supervisory convergence (1/2)

- **Consistent implementation of the single rulebook is an important building block of the European single market.**

- **When supervisors unjustifiably take different approaches to the single rulebook, and where supervisory outcomes diverge, that can create challenges for the effective functioning of the internal market.**

- **The single rulebook will only deliver an internal market in practice when supervised and enforced consistently by strong gatekeepers, home and host supervisors.**

- **Supervisory convergence enables fair competition. It also ensures the same level of consumer protection regardless of the type and location of the service provider.**

3. Supervisory convergence (2/2)

- **Strong convergence is therefore also in the interest of investors. Only when investors feel sufficiently protected will they be willing to enter the capital markets and participate.**

- **The ESAs deploy a range of tools to promote supervisory convergence, such as guidelines, Q&As and peer reviews.**
  - In the future, there needs to be a shift of time and resources within the ESAs from the regulatory side to supervisory convergence.
  - Reviews should assess not only the consistency but also the efficacy of supervisory outcomes.
  - The enhancements to the ESAs’ convergence toolkit that the ESA review delivered (such as enhanced peer reviews, coordination groups and the Union Strategic Supervisory Priorities) should be put into practice quickly and with sufficient resources.

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SUERF / Belgian Financial Forum (BFF) conference

New developments in European financial regulation: What implications for cross-border financial services?

15 November, 2019
Brussels

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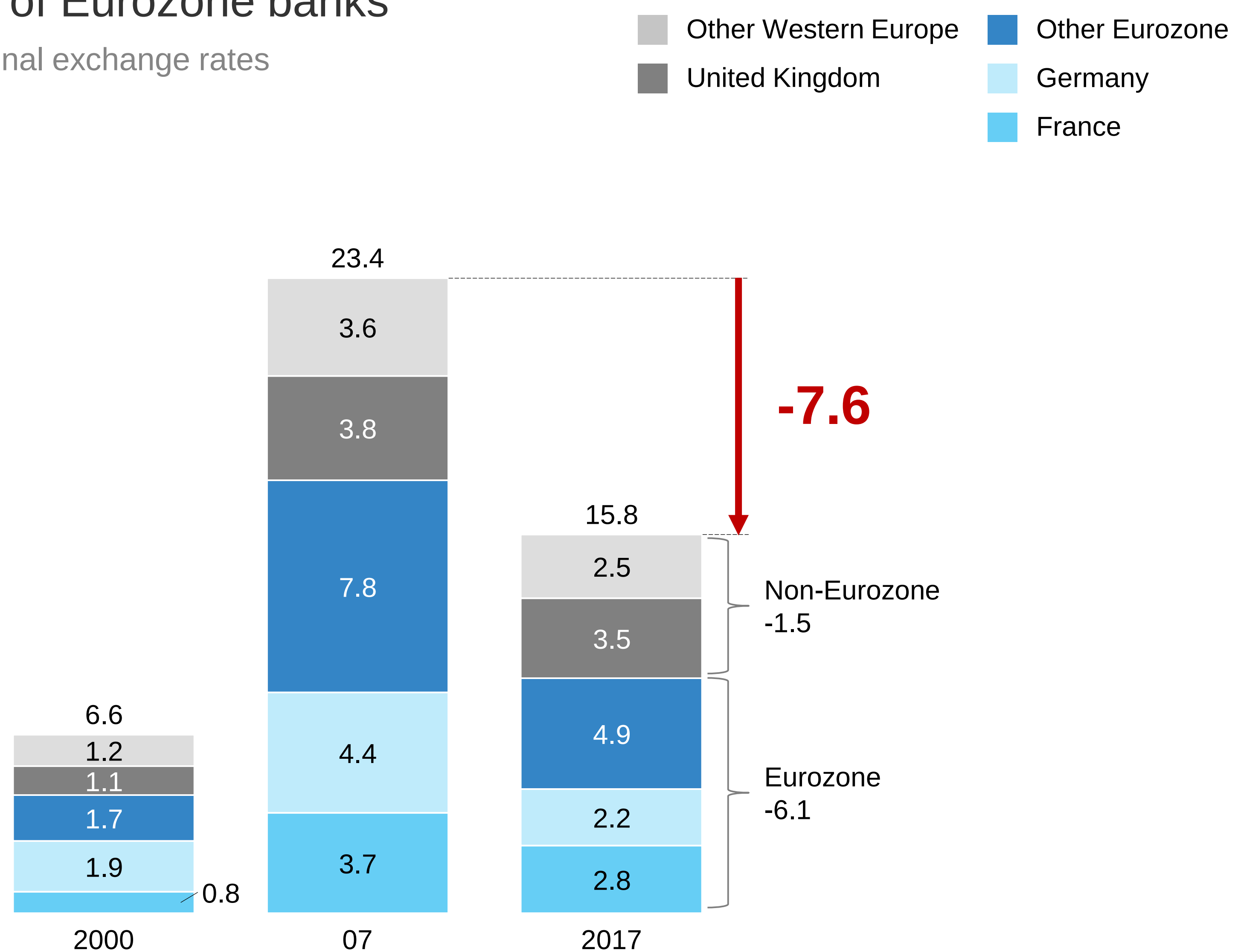
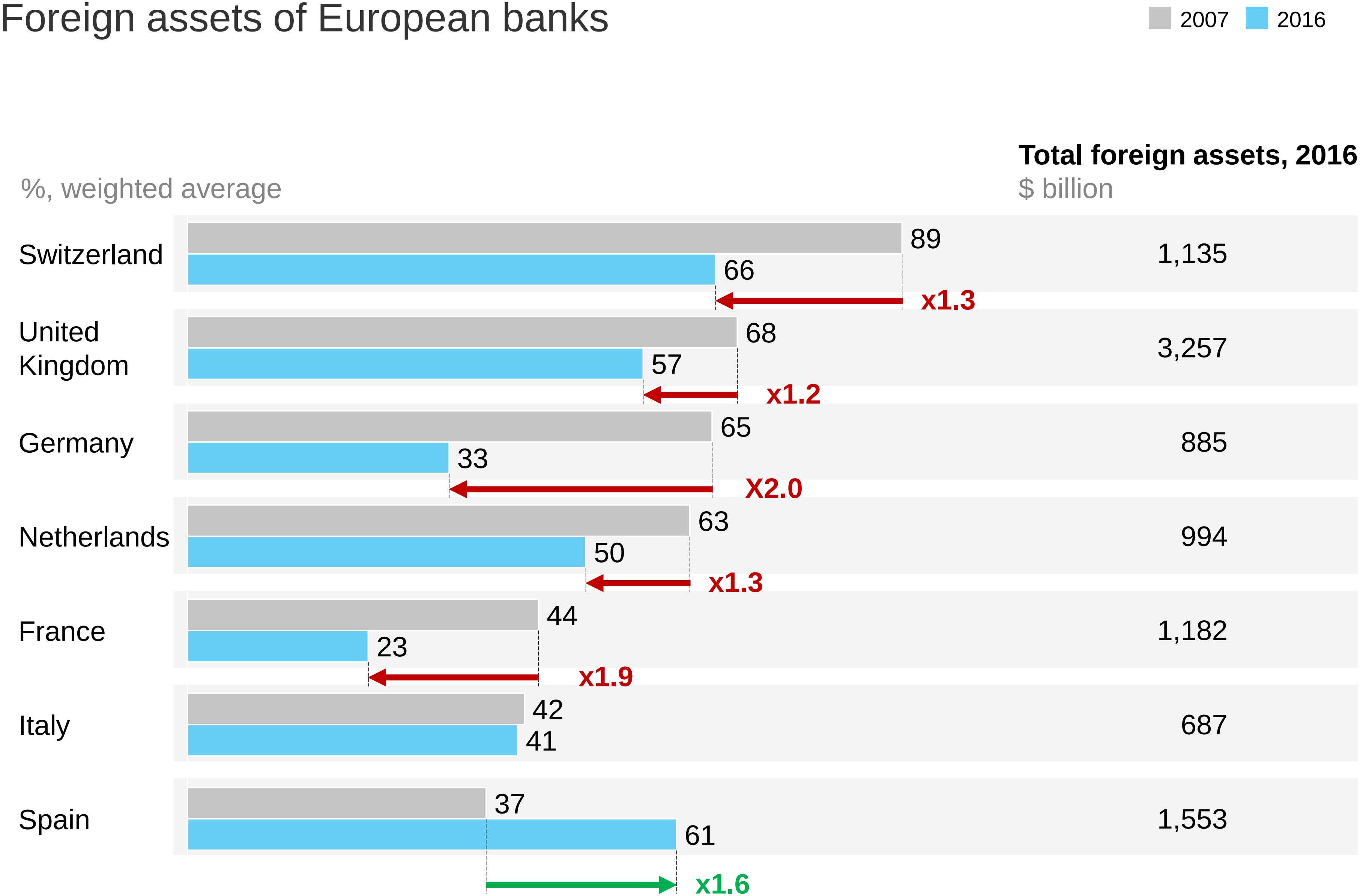
Foreign claims of Eurozone banks

$ trillion, annual nominal exchange rates



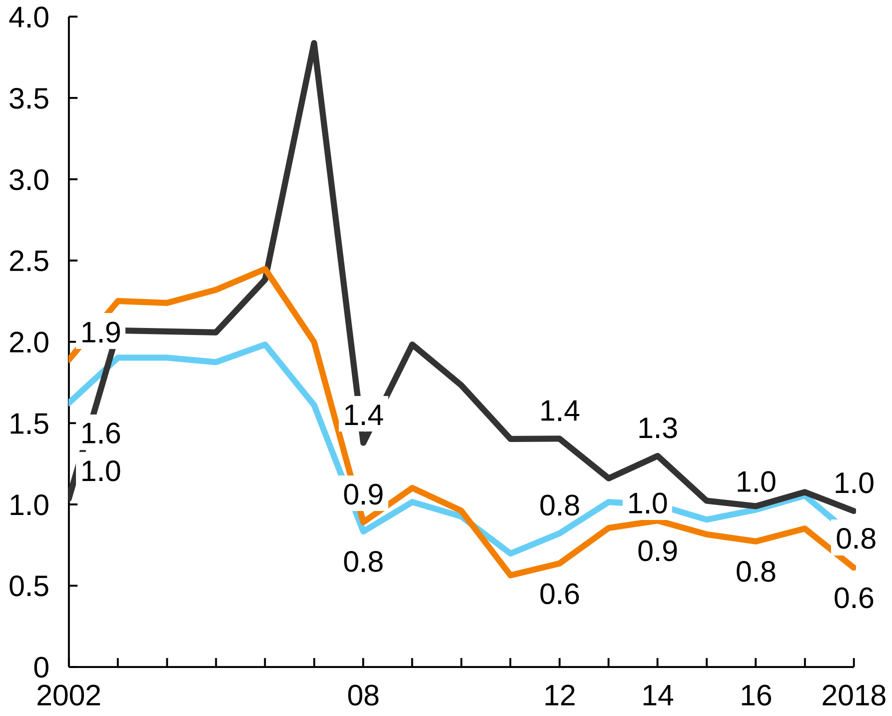
Foreign assets of European banks



Western Europe banks' P/B and RoE lowest globally

Total Developed | Western Europe | Total Emerging

Banks[1]' P/B ratio



Banks[1]' RoE, %