CMU Policy Update

September

HIGHLIGHTS

- European Parliament adopts negotiating position on PEPP
- European Parliament publishes draft position on SME listings proposal
- AFME publishes report on CMU progress

European Parliament

European Parliament adopts negotiation position on PEPP – 3 September

The European Parliament has adopted its negotiating position on the proposal for a pan-European personal pension product (PEPP), following a vote on the MEP **Sophie in't Veld's (ALDE/NLD)** draft report in the ECON Committee.

The draft report itself was approved by a not too strong margin of 29 votes to 10, and 17 abstentions. Notwithstanding the narrow majority in favour, the ECON MEPs approved by a wider majority (47 in favour, 8 against and 1 abstention) the mandate for the Parliament to engage in negotiations ('trilogues') with the Council.

The draft report, as approved by ECON, introduced notably the following changes to the original proposal:

- **Base PEPP:** introduction of this new concept, which is essentially a default and safer than average PEPP option. It reduces risk either by applying risk attenuation measures through a life-cycle investment strategy, or through a capital guarantee. Moreover, 35% of the capital should be taken in the form of an annuity
- Certain accredited occupational pension institutions may offer PEPPs under certain conditions, but the assets and liabilities corresponding to the PEPP should be kept as separate as possible with no option to transfer to the institution's other pension activities
- **Portability from member state to member state:**
  - The supplier should provide information in the contract itself on available national compartments
  - If a PEPP provider cannot offer a national compartment in a member state, it must offer the saver other portability options, such as the possibility of continuing to save in a PEPP through a partnership agreement. If such partnerships do not exist, the saver should be able to change the provider free of charge
- **ESG:** PEPP providers must take into account ESG factors in their investment decisions and risk management systems

- **Compensation:** creation of a cross-border collective redress mechanisms for consumers to apply for compensation

Political dynamics behind the scenes

The vote was already postponed once before the summer break due to disagreements between the MEPs. Even this time, the S&D Group failed to finalise its position until the final hour of the vote, and reportedly last-minute negotiations took place until the very end.

In order to be able to support the text, S&D MEPs tabled a last-minute oral amendment calling for changing the definition of capital. This new definition would have enabled pension savers to recover all of the nominal capital by disregarding the return on investment in the calculation if this is negative.

However, other political groups opposed the last-minute amendment, and it was consequently rejected. Hence why all S&D MEPs abstained and refrained from supporting the draft report.

Next steps

With both the European Parliament and the Council having finalised their preliminary positions, the two will now enter into trilogue negotiations to find a mutually agreeable compromise. Only then the Regulation can become EU law. This process of trilogues will take a few months at best. The ongoing Austrian Presidency of the Council has committed to achieving great progress on the file by the end of the year.

For further information on the Council's own position, please see Accountancy Europe's CMU Policy Update from June.

European Parliament takes first step to a position on SME listings reform, with publication of Draft report – 25 September

The MEP **Anne Sander (EPP/FRA)** has published her draft report on the Commission proposal to facilitate SME listings on SME Growth Markets (SME GMs).

For further information on the Commission proposal, please see Accountancy Europe's CMU Policy Update from April-May.

In her draft report, Ms. Sander proposes a number of changes to the original Commission proposal, including the following:

- **Refining definition for SMEs:** review the SME definition thresholds in the Prospectus Regulation and MiFID II. These thresholds should be revised upwards, Ms. Sander believes. She proposes, in particular, to raise the turnover, balance sheet and market capitalisation thresholds
- **Improve investment in both listed and unlisted SMEs:** Ms. Sanders proposes, in the first instance, to extend the market sounding exemptions to cover all private bond placements irrespective of the trading venue. Second, SMEs should publish the state of their working capital in their growth prospectuses
- **Further alleviations in the Prospectus Regulation:**
  - Reduce to two years the period for an SME to transfer its listing from a SME growth market to a regulated market while being able to benefit from a simplified disclosure regime
  - Allowing companies that do not meet the thresholds set out in the Prospectus Regulation to be listed and benefit from advantages if their post-listing market value is below the MiFID II threshold

- **Further alleviations to the Market Abuse Regulation (MAR):**
  - Clarification of alleviations for inside information publication notifications
  - Exemption for companies in growth markets from the obligation to keep lists of persons closely related to persons with managerial responsibilities
  - Preservation of accepted national market practices for liquidity contracts and an extension of the possibility of using them in financial markets, particularly for relatively illiquid securities

In terms of next steps, the ECON Committee is currently scheduled to vote on the draft report on 3 December. On this file, the European Parliament will legislate on an equal basis to the member states in the Council.Eventually, both the Council and the European Parliament will have to reach a compromise for the proposal to become EU law.

ECB & ESAs

ESAs publish report on automated financial advice – 5 September

The European Supervisory Authorities (ESAs) have published a joint report on automated financial advice.

The Report argues that while automation in financial advice seems to be slowly growing, the overall number of firms and customers involved is still quite limited. As the identified risks have not materialised and considering the limited growth of the phenomenon, the ESAs believe that no immediate action is necessary.

Other News

AFME report tracks CMU progress – 24 September

The Association for Financial Markets in Europe (AFME) has published a first report in what will be a series of annual reports that monitor progress in achieving the goals of the CMU.

The report uses seven key performance indicators (KPIs) to assess progress across the seven political priorities of the European Commission's CMU Action Plan. On the basis of these KPIs, the report makes the following observations:

- The availability of pools of capital for investment has shown encouraging improvements in most EU countries in recent years
- European companies continue to over rely on bank lending, as only 14% of new external funding by EU non-financial corporates in 2017 was through bonds or public equity, with the remainder funded through bank lending
- Europe is a global leader in sustainable finance. Over 2% of the EU's bonds issued in 2017 were labelled sustainable, up from 0% just five years ago and compared with less than 1% in the US in 2017. The EU, however, lacks diversity in terms of bond type, as around 95% of issuance since 2012 have been senior unsecured bonds, whereas the US has a much greater prevalence of sustainable securitisation
- The annual amount of pre-IPO risk capital invested into SMEs has increased in the EU from EUR 10.6 billion in 2013 to EUR 22.7 billion in 2017. However, risk capital investments remain low relative to GDP and a significant gap continues compared with the US (0.8% of GDP vs 0.15% of GDP in the EU)

- European capital markets have shown an encouraging trend towards greater integration since the aftermath of the financial crisis after the repatriation of some market activities and funding to home countries
- Recent years have shown a decline in the transformation of loans into tradeable securities like covered bonds, securitisation, or loan portfolio transactions
- Market depth has increased slightly in Central and Eastern European (CEE), although at a slow pace

MEP Questions & Answers

THE 'PAN-EUROPEAN PENSION PRODUCT (PEPP)' AND BLACKROCK – 7 September

The European Commission has replied to a question asked by the MEP **Kostadinka Kuneva (GUE-NGL/GRE)** with regard to the PEPP proposal and Blackrock.

In her question, Ms. Kuneva accuses the PEPP proposal of being inspired by Blackrock. She asks the Commission about Blackrock's involvement in lobbying the Commission on the topic.

In his reply, **Vice-President Dombrovskis** maintains that the initial inspiration for PEPP came from the European Insurance and Occupational Pensions Authority (EIOPA). He admits that Blackrock did reply to the Commission's initial CMU public consultation, but argues that Blackrock's proposed approach on personal pension products differs fundamentally from what the Commission has proposed in its PEPP proposal. Finally, the Vice-President emphasizes that the Commission listens to and consults a wide variety of stakeholders to inform its approach, and Blackrock is merely one out of several.

Green bonds as a potential source of speculation – 11 September

The European Commission has replied to a question asked by the MEP **Dimitrios Papadimoulis (GUE-NGL/GRE)** with regard to green bonds and their potential use for speculation.

In his question, Mr. Papadimoulis laments that companies issuing green bonds will on the one hand be able to finance their sustainability projects profitably, whilst maintaining other harmful practices. He fears that green bonds will merely become a non-substantive positive PR venture for businesses. He therefore asks the Commission how it will ensure that green bonds cannot become a vehicle of speculation by green bond issuers, and what challenges it sees in the "rapid rise" of green bond globally.

In his reply, **Vice-President Dombrovskis** underlines that the European Commission recognises the need to ensure that all green bond issuers respect clear and transparent rules. Good market practice of high-quality green bond issuers includes an independent review of the impact of investments or projects financed with green bonds, to avoid green-washing, the Vice-President elaborates. The Commission is also expecting its Technical Expert Group on sustainable finance to report back to it by Q2 2019 on its thinking for developing a EU green bond standard.

Events

- 10/10/2018, ***Sustaining Growth through Innovation in Capital Markets***, CEPS, Brussels. Source
- 11/10/2018, ***The Future of European Financial Infrastructure***, QED, Brussels. Source
- 17/10/2018, ***6th Annual QED Conference on Cybersecurity***, QED, Brussels. Source
- 06/11/2018, ***Supervisory convergence of ESAs: The impact on day-to-day supervision***, Financial Future, Brussels. Source
- 04/12/2018, ***Where do we stand now with the Capital Markets Union?*** Financial Future, Brussels. Source
- Q4 2018, ***7th Annual EU Financial Regulation Conference***, QED, Brussels. Source

.