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Measures towards growth and financial sector stability in the EU:

What is the medium-term economic outlook after the pandemic, and what does it require from economic policy/financial sector? What is the role of the new EMU structures, the Capital Markets Union or the green digital transitions?

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Mr. Berrigan's speech:

Thank you.

I'm hope you can all hear me.

Good afternoon ladies and gentlemen, and let me begin by thanking Anneli for her even welcome, which I unfortunately could not hear for some reason.

But OK, I am. Unfortunately I can't be with you in person today, but I'm never less very happy to have this sort of virtual opportunity to share with you some thoughts on the EU's financial sector agenda.

But I want to focus my remarks on five main elements of that agenda, and these are sustainable finance, digital finance, the capital markets union, the Banking Union, and the AML CFT framework.

I could have added a number of other elements and these.

Would have included the completion of the Basel.

To your form.

Or the review of the Solvency 2 framework for the insurance sector.

The further development of retail payments through form of macroprudential framework.

Lots of things to talk about, but I only have so much time to speak today and I didn't really want to push my luck with Annalise so I will stick with the five points.

That I had.

Mentioned before I turn to the financial.

Sector let me take just a.

A few words about the wider economic context.

As we emerge from the COVID-19 crisis, I think it's increasingly evident that the EU financial sector and the banking sector in particular has coped well.

Indeed, there is an increasingly clear ring of truth, I think, to the mantra that banks have been part of the solution this time round rather than part of the problem as in 2008 and.

Line right, this is a very welcome turn of events.

It should not distract us from the important challenges that remain.

I think some of those were discussed earlier this morning by Andrea.

We we exit the COVID-19 crisis with increased levels of public and private indebtedness, asset valuations appear stretched. Inflation pressure has returned and they proved more durable than we would hope.

We also have a banking sector with long standing structural weaknesses in the form of excess capacity, inefficient cost structures and low profitability.

And it's fully support measures are being drawn.

We can expect the quality of banks balance sheets to deteriorate somewhat.

Thankfully, the feared tsunami of nonperforming loans has not materialized.

The combination of public support measures and regulatory relief has averted the worst.

But it's hard to imagine that a significant increase in corporate insolvencies, and hence related NPL's, can be invited altogether in the period ahead.

And all of this implies new stresses and strains in the EU economy.

The eventual withdrawal of public support measures will need to be gradual, coordinated and well communicated, and in that context, the EU recovery plan will play a crucial role in alleviating pressure on Member States, economies and public finances, particularly on those Member States which have been most.

Affected by the crisis.

That plan, as you know, involves 7.

150

Billion euros in the form of both grants and loans to finance investments and reform.

Once the aim is to tackle rising income inequalities, disrupted education for young people cuts in business investments and increased risks or risk of insolvencies after the COVID-19 crisis. The plan will also help to address more established structural challenges and of course to facilitate the green.

And digital transitions.

So the good news is that economic and financial conditions in the EU are much improved compared to this time last year, and they're considerably better than we originally feared they might be.

Nevertheless, the path of recovery from the crisis remains uncertain, which makes the structural reform even more necessary than before the crisis.

And this applies to reforms in the financial sector as well.

So let me now turn to the EU financial sector and to the first element of the policy agenda that I will discuss today and that is sustainable finance.

The European green

Deal has set ambitious targets relating to our climate and environment, and to achieve those targets very large amounts of investments will be required.

We estimate that the EU will need about €350 billion of investment to meet its 2030 emissions target in energy systems alone, and this is in addition to about €130 billion needed for other environmental goals.

The scale of investment required is well beyond what could be delivered by the public sector even before the effects of the COVID-19 crisis.

So the green transition will rely very heavily on the private sector.

And the financial system will played a key role in facilitating that flow of private investment to sustainable activities.

Investor preferences have clearly shifted towards sustainable activities in recent years, but if the necessary scale of private investment is to be mobilized a clear and coherent framework for sustainable finance is required.

The EU's 2018 action plan laid the foundations for this sustainable finance framework.

Based on that Plan, 3 main building blocks are now.

Being put in place.

The first building block is the EU taxonomy and this will classify economic activities in terms of their sustainability.

The second building block is a disclosure regime.

This will be based on the taxonomy and will apply mandatorily to larger non financial and financial corporates.

The third building block is a set of market tools such as standards, benchmarks and labels, and these tools will allow investors to act on their sustainability preferences more easily, effectively and safely.

The 2018 action plan was updated in July of this year, and that update takes account of more recent developments and addresses some gaps that were identified.

In the framework.

Those gaps include the need to finance the transition to sustainability and not focus only on activities that are already sustainable.

The need for the framework to be more inclusive, for example by accommodating the needs of SMB's and retail investors.

The need to set appropriate incentives and ensure resilience in the financial sector as it plays its key role in helping the real economy transition to sustainability.

And lastly, the need to take account of a new global context reflecting a changed policy stance in the US and the search for international consensus.

Unsustainable finance standards.

Now, as evident from the proceedings ongoing in Glasgow today and tomorrow, the green transition is the defining policy challenge of our time.

And the EU Sustainable finance framework is just one element in meeting that challenge.

But we believe that with this update this year, the framework will play a vital role in the green transition by mainstreaming ESG factors within the normal functioning of the financial sector.

There is of course a second transition.

Underway in the.

EU and that is the digital transition.

And the financial system will play a key role in this transition also.

I think it's fair to say that at least one positive effect of the COVID-19 crisis has been a marked acceleration in the shift to more digital finance.

Inertia in this transition has been broken and there seems no going back now.

For example, a large and growing proportion of in store payments are now digital and contact us.

Online purchases now represent about 1/3 of the overall transaction volume versus 1/5 at the beginning of 2020.

Online identity verification has enabled citizens to open accounts and use multiple financial services at a distance.

And Fintech solutions have helped to broaden and speed up access to loans, including those loans supported by governments in response to the COVID-19 crisis.

Now the EU is embracing digital innovation and finance.

And the digital finance strategy of 2020 sets out clearly how we want to ensure that the financial system makes the most of the digital transition.

That strategy sets out four priorities.

Firstly, overcoming fragmentation in the digital single market allowing EU innovators access to markets of sufficient scale to compete with their global peers.

Secondly, adopting the EU regulatory framework to boost digital innovation while mitigating any associated risks.

Thirdly, we want to promote data driven finance.

And then lastly we want to tackle challenges linked to digital transformation transformation.

In particular cyber risks.

And we're advancing these.

Priorities through various pieces of legislation.

The proposal for regulation on markets and crypto assets or mecha, as it is known, will for the first time establish a common European framework for crypto assets.

The regulation introduces a bespoke regime for previously unregulated crypto assets, including stable coin.

The proposal on digital operational resilience ARDORA aims to enact the fundamentals of cyber hygiene.

It will ensure.

That all participating participants in the financial system have the necessary safeguards in place to mitigate cyber attacks and other risks to their digital resilience.

And we're getting ready to put in place the building blocks for an initiative that has truly transformative potential.

And that's a European financial data space.

This is needed because data sharing leads to more innovative tools, more consumer choice, and more competition in economic sectors, including in finance.

We believe that the digital finance strategy will help prepare the EU for what will become a new era in finance.

But of course change comes with uncertainty, and disruption is never comfortable.

And one obvious disruptive effect of digitalization is the presence of new players in the financial sector.

Many of these are offering bank like services such as extending credit or offering investment services.

Indeed, technology companies large and small, and increasingly entering financial services.

New entrants increase competition and can improve efficiency.

On the other.

Hand it also makes value chains more complex, making it harder for supervisors to have.

An overview of the risks.

For innovation to work in a fair and competitive manner, the Commission has championed the principle.

Same activity, same risks they ruled.

Companies entering the payments sector, banking or other financial services.

Whoever they are, wherever they come from, need to be subject to the same level of regulation and supervision.

And to this.

End the Commission has issued a call for advice to the European supervisory authorities.

Because we want to understand how these new players and businesses.

That come with.

The digital transformation maybe changing risks in the financial system.

We want to know whether our existing rules cover these risks.

And lastly, whether supervisors have the tools they need to monitor them.

We will of course wait for the answers to these questions before deciding on the appropriate next steps for the EU in exploring the benefits of digital innovation, while mitigating any related risks.

Let's be honest, if you consider other industries and sectors that have been transformed by technological change and innovation when things become wanting to completely clear.

I do adopt quickly and find your place in a changing world, but that world simply moves on without you.

So it's clear that both the green and digital transitions must be underpinned by an efficient and stable EU financial system.

To this end, we need more development and integration to provide greater scale, wider choice, enhanced competition and more opportunities for risk diversification.

To deliver a more developed and integrated financial system, we need the banking union and the capital markets union.

I'll come to the banking union in.

A minute, but let me start.

With the capital markets union at CMU.

Let me be clear that.

CMU is not an end in itself.

It is a means to achieve the wider economic objectives of increasing output growth and strengthening resilience.

To adverse economic shocks.

The EU's first senior action plan was presented in 2015.

It's still too early to give an account of its impact, since many of the measures have only just been enacted recently.

Although a careful reading of our new CMU indicators suggest that EU capital markets have indeed experienced some limited structural change for the better.

On the other hand, many will argue that there has not been enough progress in CMU.

And I have to say, I find it hard to.

Disagree with them.

The measures taken so far.

Are clearly not sufficient to meet the challenges.

We are facing.

So last year.

The Commission adopted a second CMU action plan with targeted measures in three main areas.

To facilitate companies access to market based finance.

To improve investment opportunities for investors.

And thirdly, to better integrate capital markets in the EU.

All the measures proposed in the second CMU action plan are necessary to build a single market for capital with good interconnectivity and smooth cross border flows.

Financial services.

From some measures aimed to help overcome the effects of the COVID-19 crisis, others, for example relating to pensions, insolvency and tax measures, will be instrumental in shaping profound structural change.

We are now working hard to implement all of these actions and very soon we will publish a first set of legislative proposals.

By the end of this month, we have proposed legislation to create a European single access point sort of EU eadgar for companies financial and sustainability data.

And during the global success of the usage framework, we have proposed changes in the framework for the European long term investment funds or L tips to make them more appealing for investors.

And we will also propose as part of that package amendments to the Alternative Investment Fund Management Directive and the market in Financial instruments regulation.

We're also working on making the listings of shares easier and more accessible, especially for smaller companies. This will make it easier for European businesses to finance their activity to grow to innovate and create jobs, and we expect to be able to table a register proposal in this regard. During the second half of 2022.

As we all know.

CMU is a long term project.

But the expectation is that by 2024, firstly, the positive effects of measures taken under the 2015 action plan will have become fully visible in the financial statistics.

Wilcoe legislators will have adopted most of the measures.

Which the Commission.

Proposed in the second plan in 2018 with considerable progress made on those more, those tougher, more structural proposals.

For some of you, this may seem rather optimistic.

But for the Commission.

This is the very minimum ambition required.

Turning now to the banking.

Union well, why we favour an ambitious CMU.

Banks will nevertheless remain the main source of funding for the EU economy for some time.

So the banking union remains a core priority for the Commission.

And where exactly do we stand with the banking union?

Well, on the positive side, we have two main pillars, the SSM and the SRM already in place, and these have undoubtedly helped to shelter the banking system. During the COVID-19 crisis.

But the banking.

Union is still only partially completed and there's still no central safety net for depositor protection.

The crisis management framework is seldom used.

And needs reform.

But probably most importantly of all, the key objectives of the Banking union rating, the so-called bank sovereign Nexus, and restoring cross border banking have remained completely elusive.

And these key objectives can only be achieved if the banking union is completed.

Here again, there's a need for more ambition.

I think it's it's fair to say that progress in completing the banking union has stalled in recent years.

Personally, too often I find the debate focuses on the cost for individual Member States in moving forward, the banking Union, and far too little attention is paid to the opportunity cost to the euro area as a whole in not moving forward.

We hear repeatedly from stakeholders that the costs of.

The banking union are already being felt.

But the benefits have not yet materialized.

And I detect a growing sense of frustration here.

So against this background, the Commission strongly supports the Eurogroup's intention to present an ambitious work plan towards a steady state banking union.

It's vital that discussions on this work plan accelerate with the aim of reaching an agreement as soon as possible.

Before concluding, I want to touch briefly upon another essential characteristic of an efficient and stable EU financial system.

This is an.

Effective framework against money laundering and terrorism financing.

In July of this year.

The Commission adopted an ELF package.

Which essentially delivers on three key pillars of our earlier CVE action plan.

These three pillars are establishing a single rulebook.

Establishing a layer of CVE supervision at the EU level.

And establishing a coordination and support mechanism for FY use.

We can draw many parallels between this package and the reinforcement of the EU banking supervision and resolution after the great financial crisis.

He may not have experienced an AML crisis on anything like the scale of the great financial crisis.

But the EU has experienced a series of AML scandals that have hit the headlines in recent years.

Both scandals have revealed severe deficiencies in supervision and a lack of appropriate structures to coordinate both supervisory actions and financial intelligence.

Under the Commission proposal, a new EU anti money laundering authority, or Amla Amla will become the centerpiece of an integrated QQ supervisory system.

The system will.

Consist of the authority itself and those national authorities in AML.

CFE supervisory mandate.

Direct European supervision of the riskiest cross border.

Financial entities will close many of the loopholes in supervision at the EU level.

At the same time.

Pamela will coordinate national supervisory authorities and assist them to increase their effectiveness in enforcing the single rulebook and ensuring homogeneous and high quality supervisory standards, approaches and risk assessment methodologies.

And they will also act as coordinator and facilitator of cross border strategic and operational work of national financial intelligence units.

Timely identification of trends and typologies at Union level and the facilitation of joint analysis of suspicious activities and reports will directly contribute to the prevention of incidents of money laundering and terrorism financing.

We expect Amle to be established in 2023 and to start its activities in 2024.

The direct supervision of certain high risk financial entities will only start two years later in 2026, which is when Amla will have of course reached its full staffing.

In order to best prepare the ground for online, in particular with respect to the supervision of non financial sector and the functioning of Fr, use Member States need to make tangible headway in efficiently implementing the AML framework.

Effective implementation of the existing AML rules is at the very core of our approach to fighting money laundering.

Over the years since the first AML directive in 1991, actually the EU has been reinforcing its anti money laundering rules.

These rules are now among the toughest in the world and will be further strengthened once the new AML package is adopted.

But they'll only be effective.

If they're forced equally across the board.

This involves a proactive look at the state of play of application of the rules.

In the EU, we need in particular to ensure that beneficial ownership registers.

Are up and running.

The Commission will use its enforcement powers under the Treaty to that end.

And it will work in International forum to make sure that other jurisdictions follow suit by bringing about full transparency of beneficial ownership.

In essence, our.

AML framework is only as strong as its weakest link and This is why more Europe is needed here.

We need more Europe to create bridges between supervisors.

Among financial intelligence units and between supervisors.

And F1 use.

Here again we will need ambition on the part of the Co legislators.

As I'm running close to the end of my time, I will conclude here, as you will appreciate from my remarks, today we were at a full agenda of EU financial sector policy reforms for.

The coming years.

These reforms I think, have become even more important in the context of the ongoing recovery from the COVID-19 crisis.

The recovery offers the opportunity to transform the EU economy via the green and digital transitions.

But in time, the success of those transitions will depend on an efficient and stable EU financial system, which can only be delivered by completing the banking union.

Further, building the capital markets union and reinforcing the framework for anti money laundering and counter financing of terrorism.

The Commission has put forward ambitious proposals.

In all of these fields.

But as I always.

End on these occasions I will end here as.

Well, the Commission can achieve.

One of these objectives on its own.

We need the.

Full engagement and cooperation of all stakeholders, both public and tribal.

Eager to deliver what the EU economy and EU citizens deserve.

I will stop here and thank you very much for your attention.

Thank you.

Thank you, Mr.