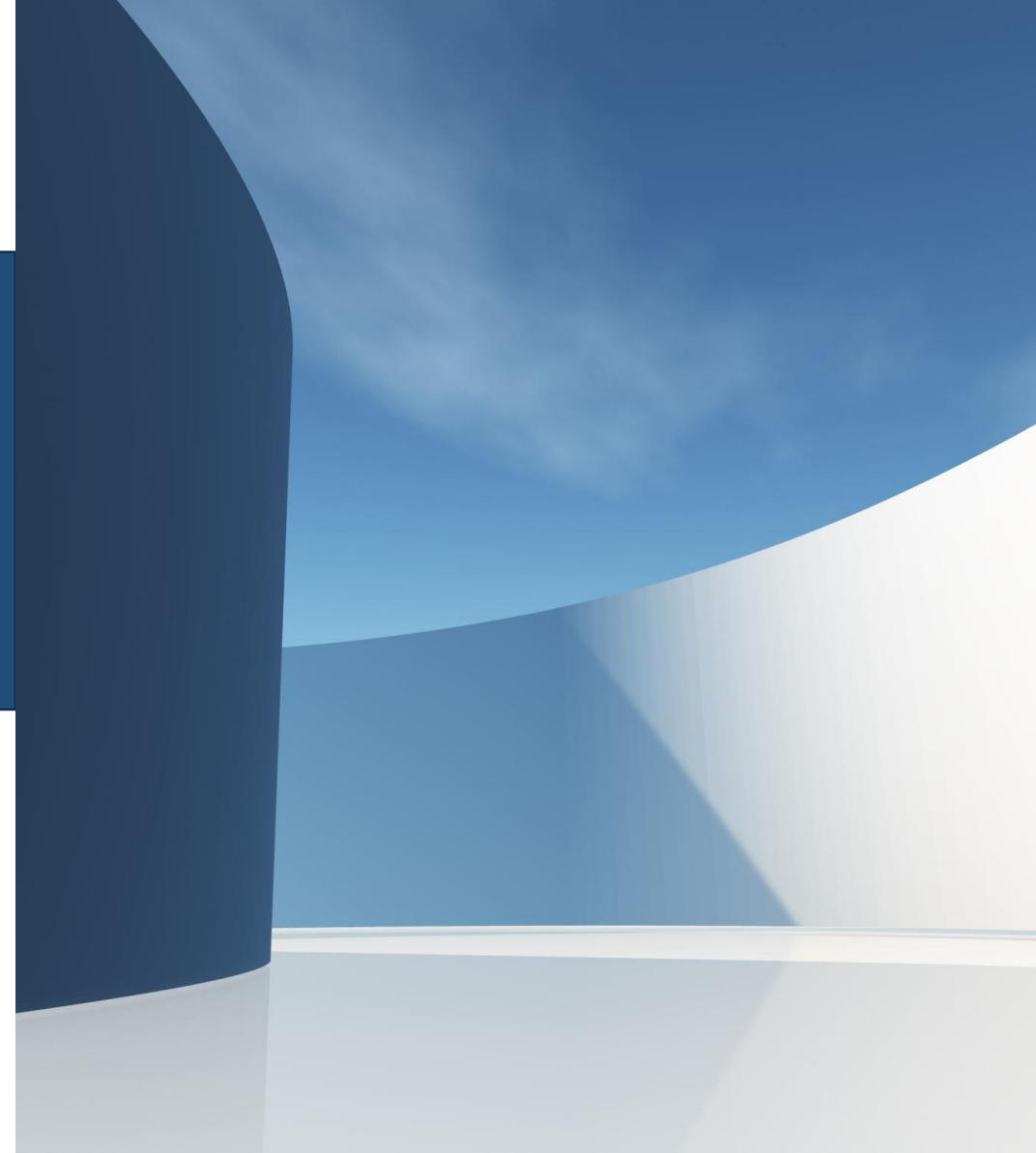


# Inside Brussels

And a look around the corner

Thomas Wulf  
Secretary General, EUSIPA

Lucerne, September 2023





*Timothy Garton Ash, historian, in  
"Homelands", 2023*

*"With the war in Ukraine the  
post-(Berlin) wall period is  
over."*

# A war that changed everything

## European Security Architecture - Fronting Russia

### North Atlantic Treaty Organization



### Debatte um Neutralität: Sollte Österreich der NATO beitreten?

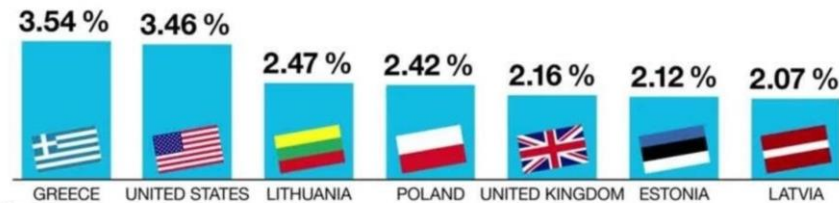
6 PERSPEKTIVEN ZUR DEBATTE  
#EUROPA #SICHERHEIT

### Ireland opens debate on future of military neutrality

Ukraine war and security concerns prompt discussion about possibility of joining Nato

### Die Schweiz will einem europäischen Raketen-Schutzschirm beitreten

Der «European Sky Shield» soll im Himmel über Europa Raketen abwehren. Nun soll auch die Schweiz der Initiative beitreten.



Source: Nato  
**WARTIME ECONOMY**  
NATO MEMBERS TO SET NEW DEFENSE SPENDING TARGETS  
**BUSINESS**

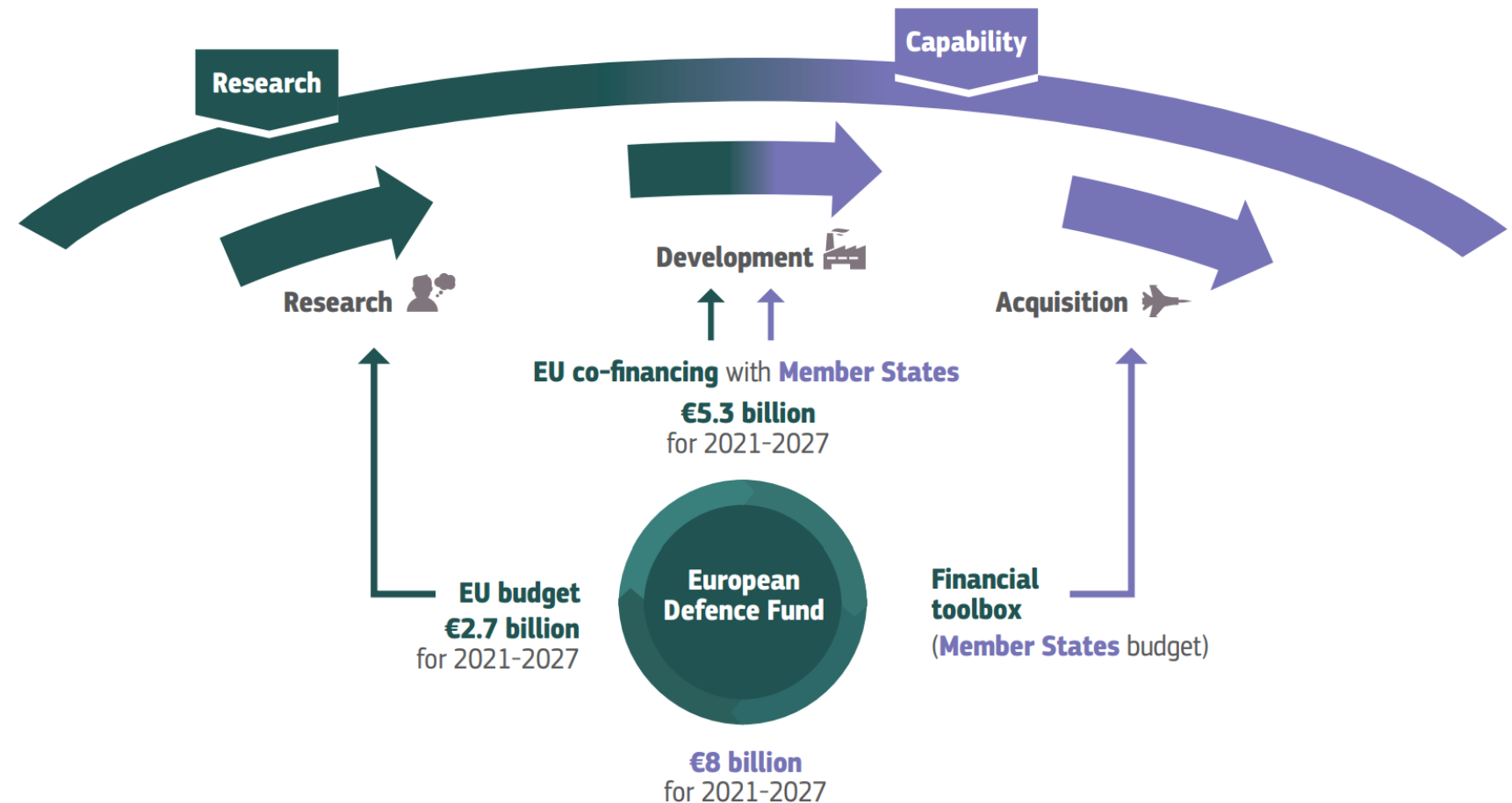


# EU to partner NATO – European Defence Fund (EDF)

Eligible projects:

**Baseline** - at least 3 participants from at least 3 different Member States or associated countries.

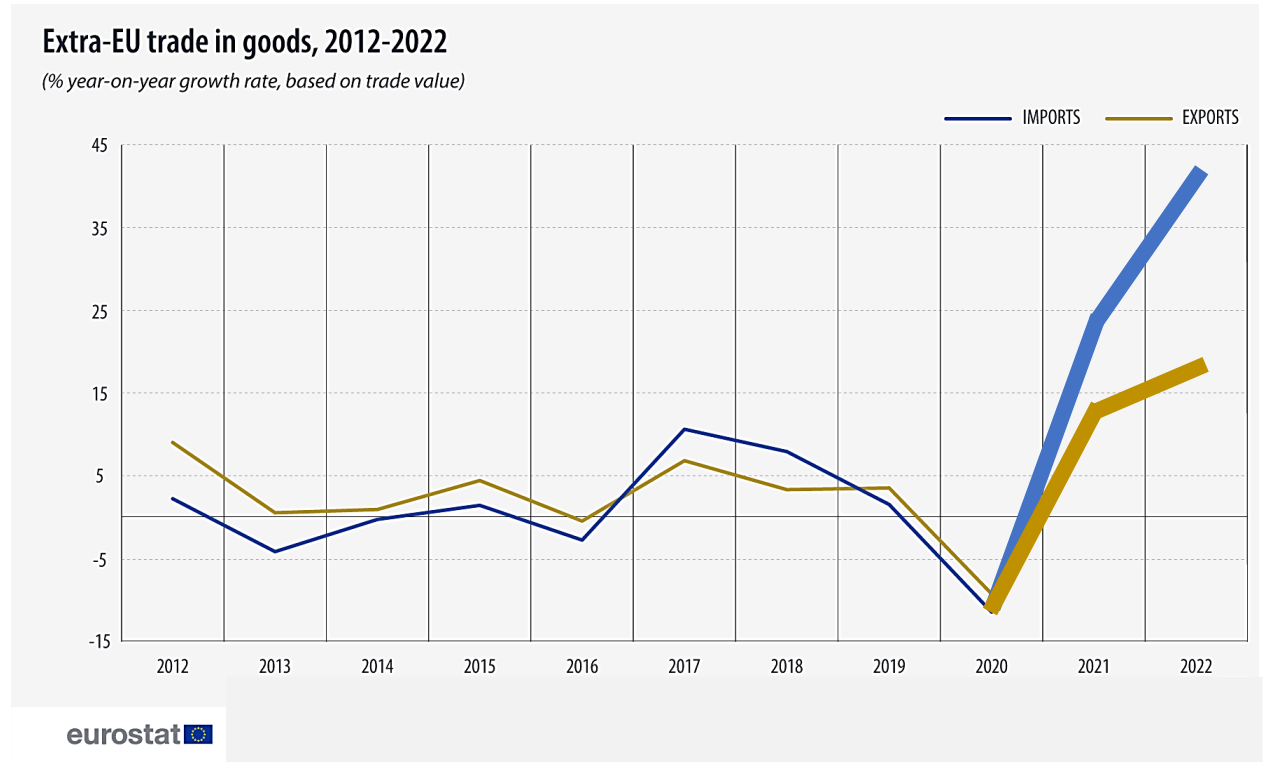
**Budget position = 0.4% of MFF 2021-2017 total**



A war that  
changed  
everything II

Keeping homes warm  
but putting strain on GDP

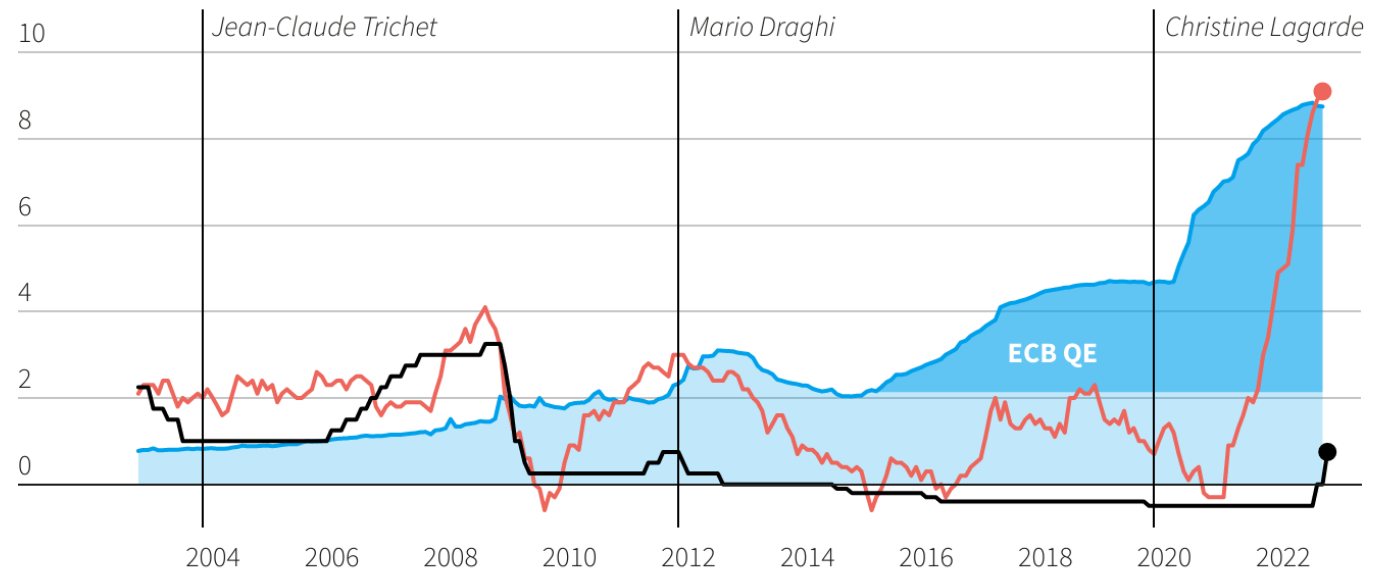
## 2022 - Highest ever recorded EU external trade deficit .... due to energy price spiral in 2022



# A war that changed everything III

Return of risks and its premium

## Unprecedented ECB rate hike speed under inflated balance sheet



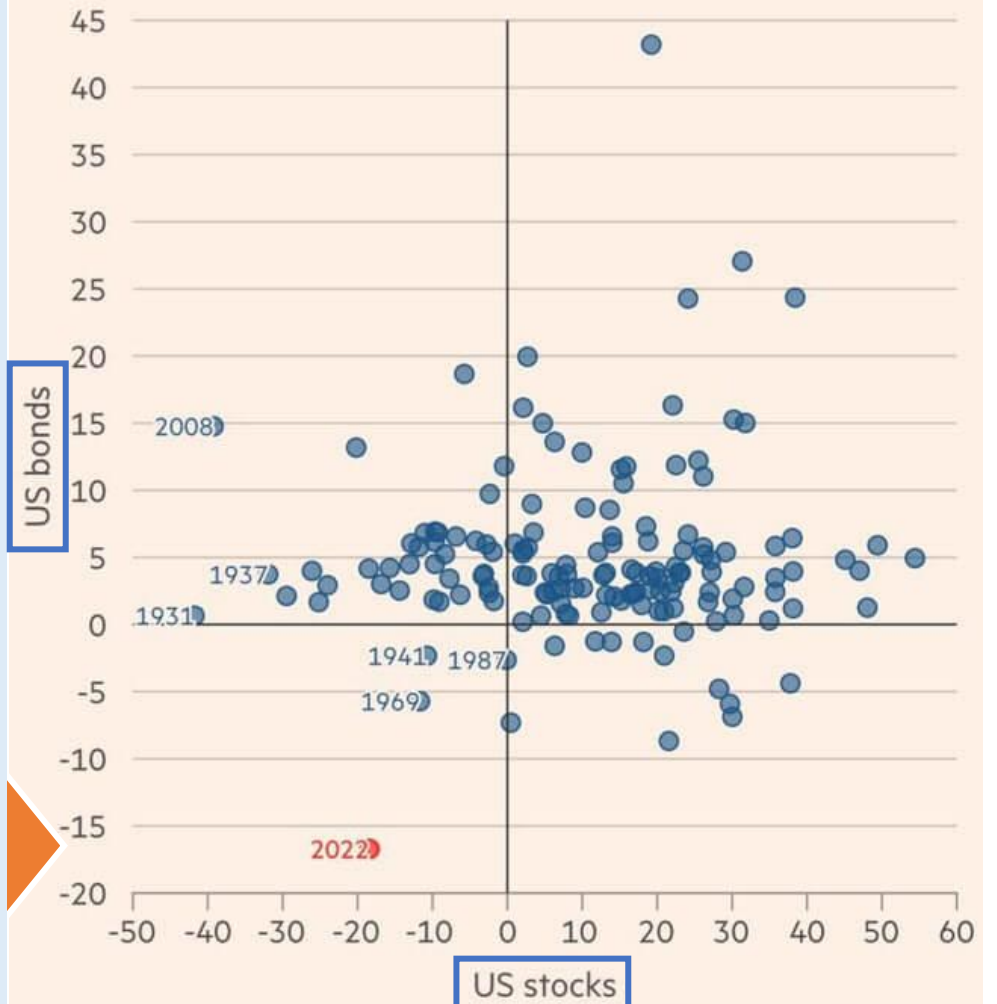
Source: Refinitiv Datastream | Reuters, Sept. 8, 2022 | Vincent Flasseur

# A war that changed everything IV

Bonds and equities (US)  
2022 - worst year ever (recorded)

2022 has been an awful year for investors - in both stocks and bonds

Total nominal return in US stocks & bonds, for each year 1871 to 2022 (%)





# Election double whammy 2024

Will the center hold?

06-09 June

05 November






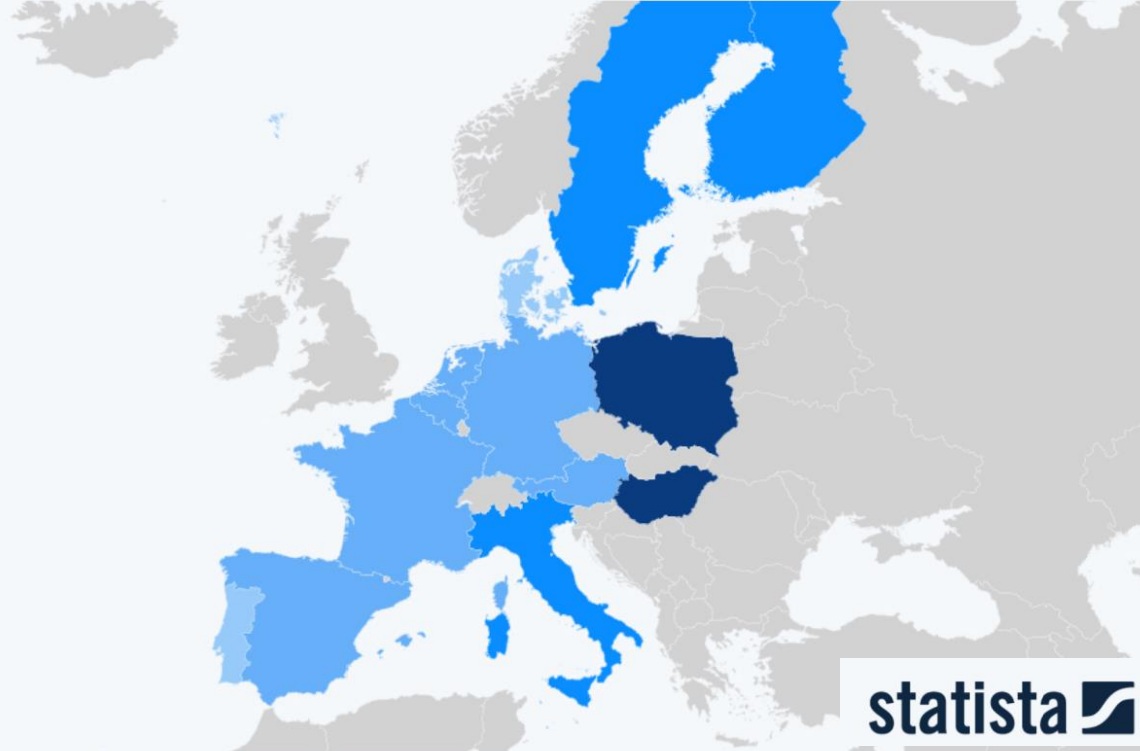


# Europe – is the far right holding its sway?



Share of seats held by the major right-wing party\*  
in the national parliament of selected EU countries

	59%	Fidesz
	50%	PiS
	30%	Fdl
	21%	SD
	20%	PS
	17%	FPÖ
	15%	RN
	15%	Vox
	12%	VB
	11%	PVV
	11%	AfD
	9%	DF
	5%	Chega



As of September 26, 2022, preliminary projections for Italy.

# Pragmatism vs vision – VDL vs Breton



# EU Multi-Annual Financial Framework 2021-2027

# But how to spend it?

### Multiannual Financial Framework (MFF)

The EU's 7-year budget



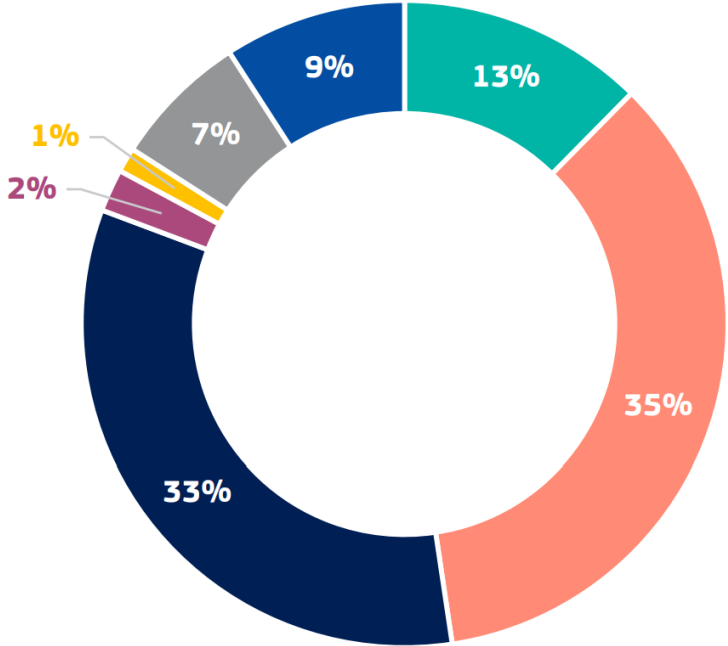
### NextGenerationEU COVID-19 recovery package

### Recovery and Resilience Facility €723.8 billion

€338.0 billion grants

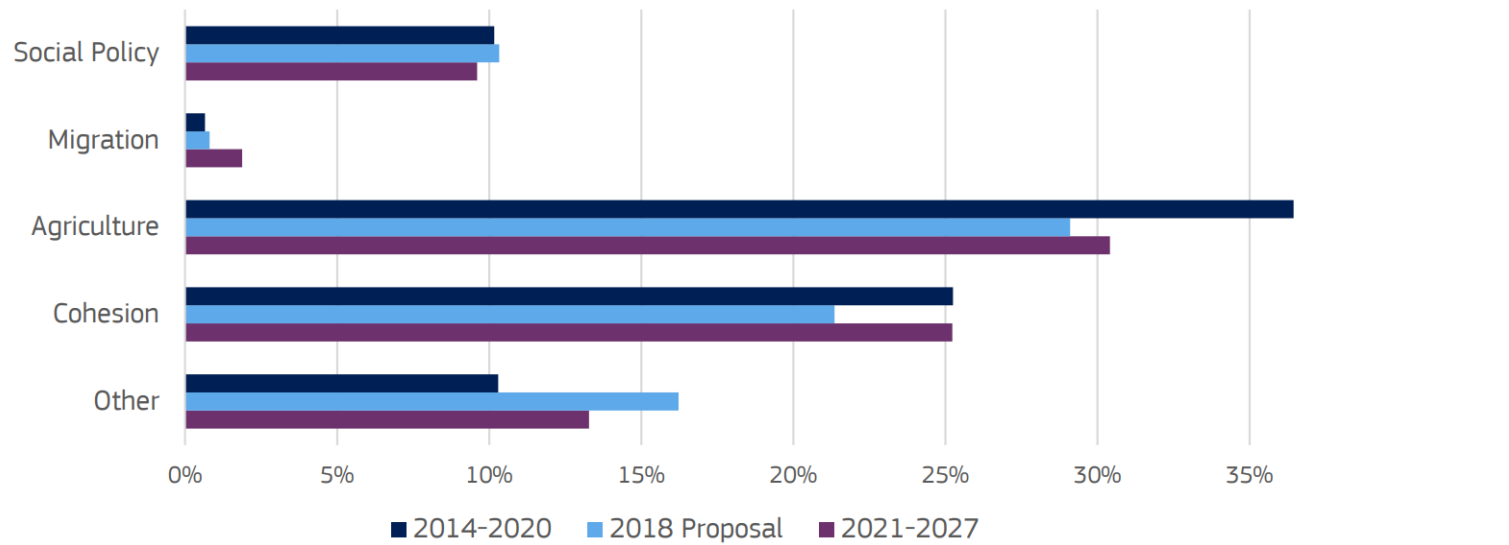
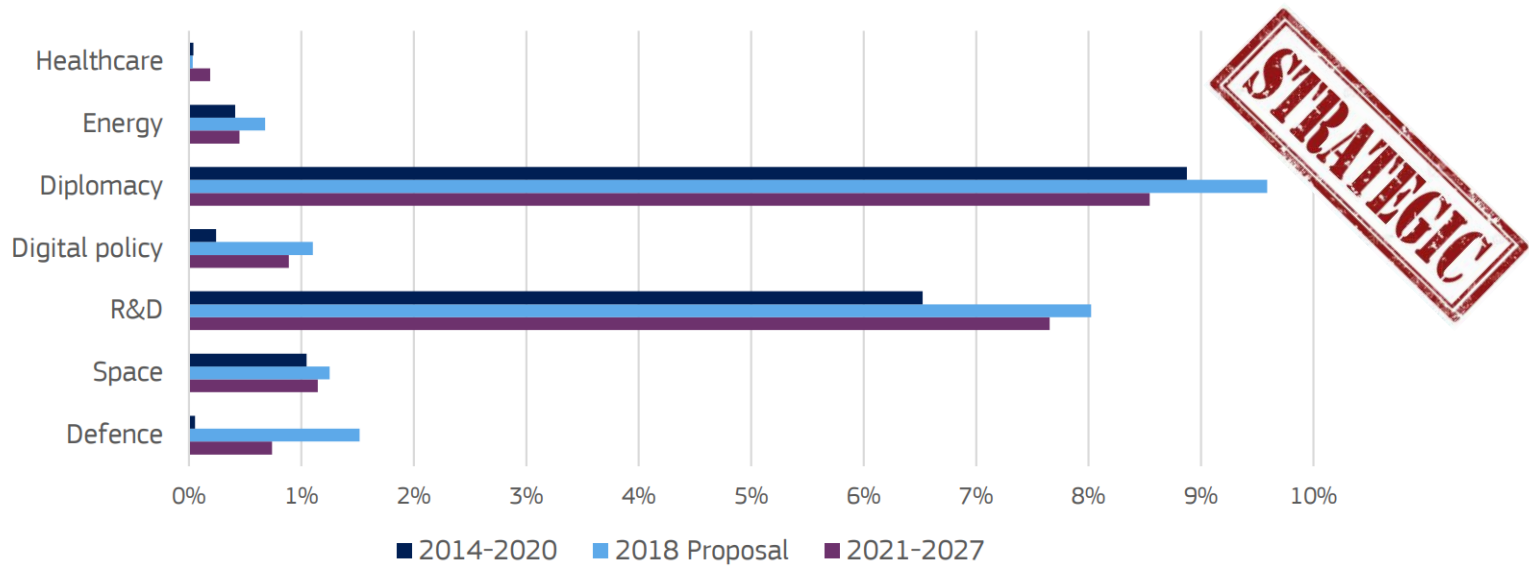
€385.8 billion loans

### NextGenerationEU contribution to other programmes EUR 83.1 billion



Note: All amounts are in current prices.

- Single market, innovation and digital
- Cohesion, resilience and values
- Natural resources and environment
- Migration and border management
- Security and defence
- European Public Administration
- Neighborhood and the world



## Recalibration needed?

EU Commission's own analysis of **strategic budget positions (top)** and other (bottom)

Details under [link](#)



# EU funding from capital markets – (NGEU EUR 807bn)

## Recovery and Resilience Facility

€723.8 billion

● €338.0 in grants ● €385.8 in loans



### POWER UP

Clean technologies and renewables



### RENOVATE

Energy efficiency of buildings



### RECHARGE AND REFUEL

Sustainable transport and charging stations



### CONNECT

Roll-out of rapid broadband services



### MODERNISE

Digitalisation of public administration



### SCALE UP

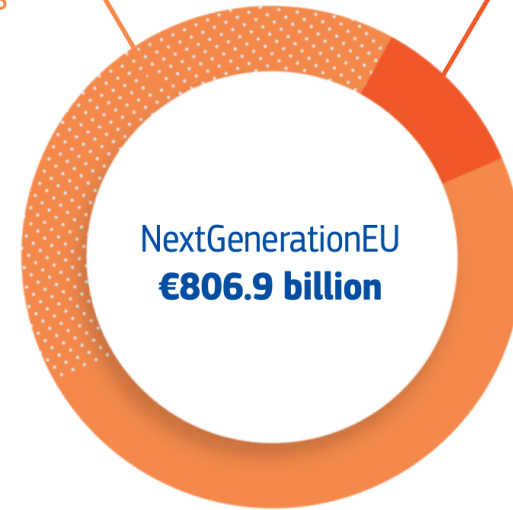
Data cloud and sustainable processors



### RESKILL AND UPSKILL

Education and training to support digital skills

15



## NextGenerationEU

contribution to other programmes

€83.1 billion

### REACT-EU

€50.6

### JUST TRANSITION FUND

€10.9

### RURAL DEVELOPMENT

€8.1

### INVESTEU

€6.1

### HORIZON EUROPE

€5.4

### RESCEU

€2.0

**BIGGEST  
BENEFACTOR  
(for now)  
ITALY  
EUR 191bn**



# EU bond yields – watch the big members

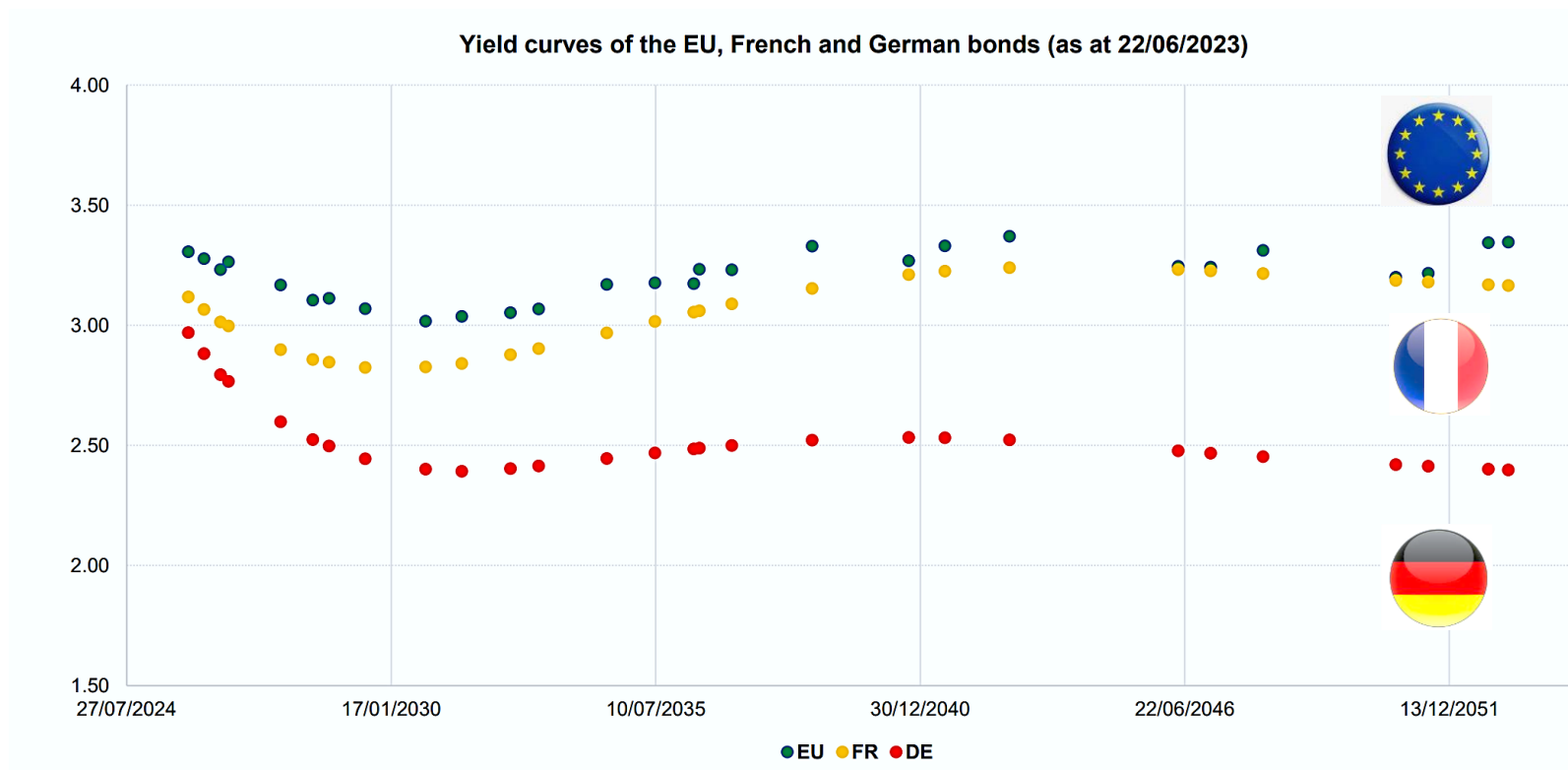
## Markets are aware:

The financial safeguards of EU solvency are national contributions to EU budget ... only.

## There is:

- No paid-in capital
- Little stand-alone tax revenue
- No unconditional guarantee of a third party

EU bond rates are thus **ultra-sensitive** to political shifts in major member states.



Source EU Commission

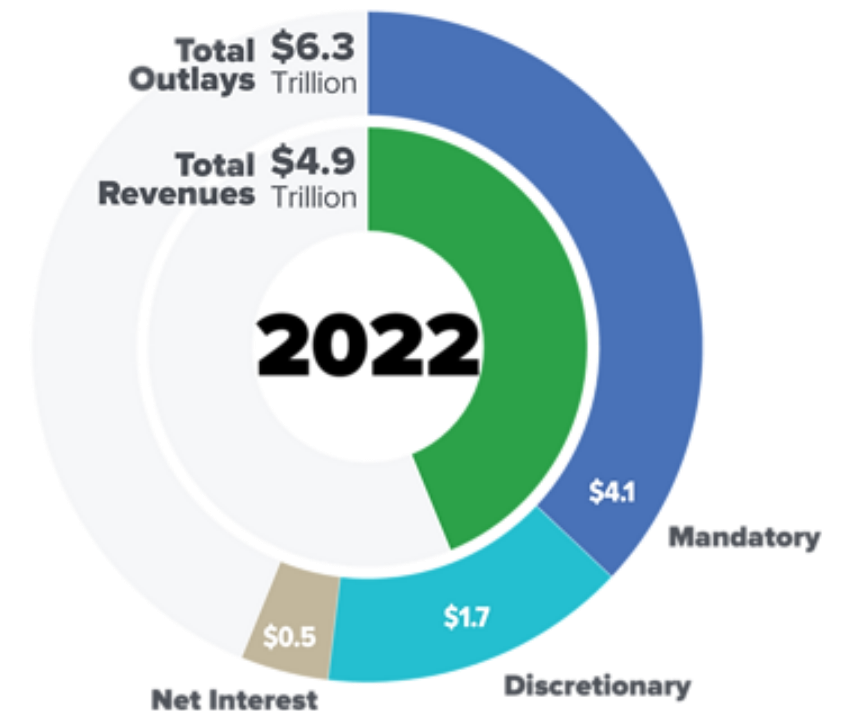
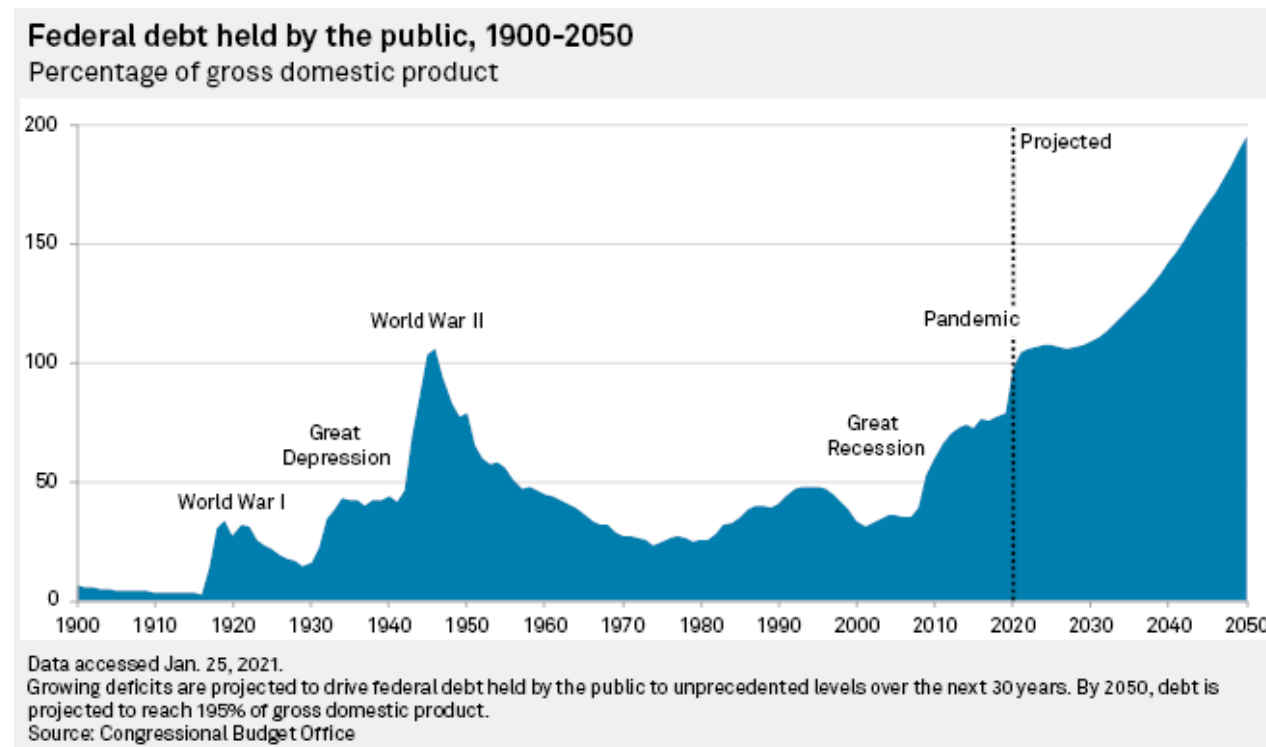
Meanwhile in  
America





# Meanwhile in America

During the July – September 2023 quarter, US Treasury will borrow **USD 1 trillion** in privately-held debt to **compensate for (unforeseen) tax income shortfalls**.

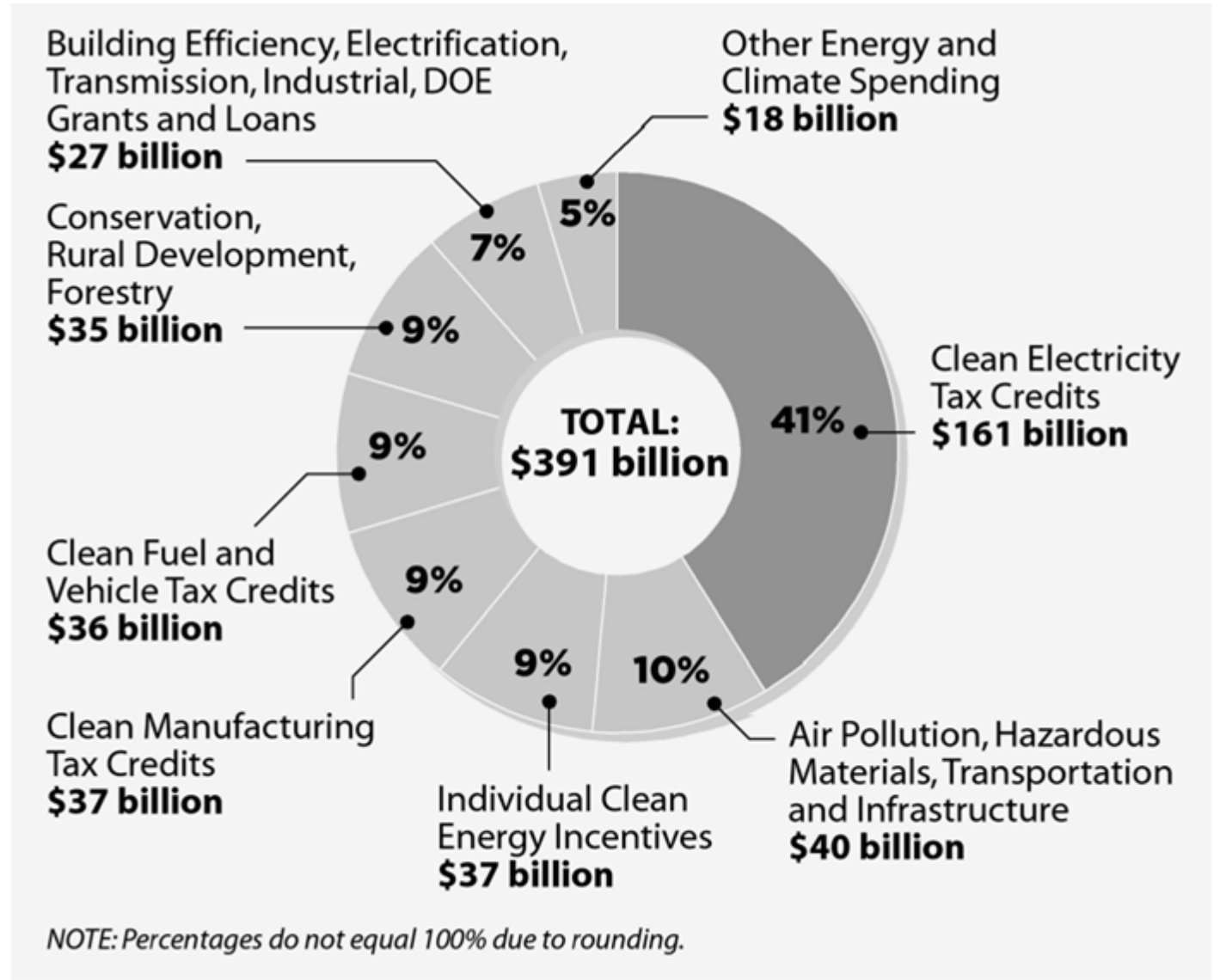


# Meanwhile in America

Strategic investment  
“Inflation Reduction Act”  
(CBO cost estimate 2022-2031)

NO CAP  
ON TAX RELIEF

(Goldman cost estimate USD 1.1tr)



SOURCE: CBO

PAUL HORN / Inside Climate News

# US and EU economic incentives – key difference



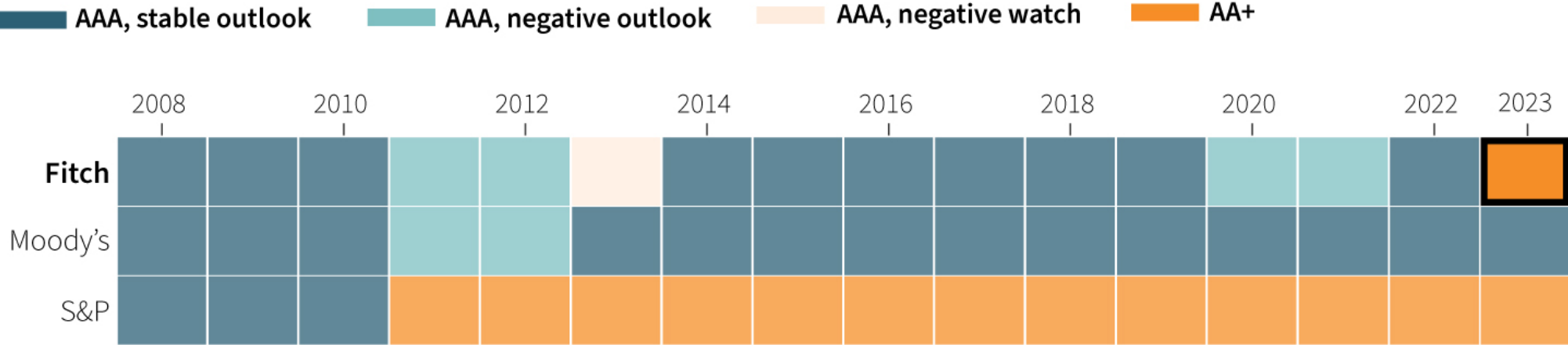
**Grants**  
**Loans**

**Grants**  
**Loans**  
**Tax credits**

# Meanwhile in America

## US loses top AAA credit rating from Fitch

The credit rater downgraded the country’s long-term foreign currency ratings to AA+, claiming a ‘deterioration in standard of governance’ in budget matters after the U.S. came to the brink of default last June.



Note: A negative outlook means a likelihood of downgrade over 12 months, while negative watch indicates a potential downgrade in 6 months. 2023 as of August 1.

Sources: Credit rating agencies

Prinz Magtulis | Reuters, August 1, 2023

A woman with short blonde hair and glasses, wearing a light-colored blazer over a patterned blouse, is looking through a magnifying glass. The magnifying glass is held by two hands, one on each side, against a dark blue background. The woman's expression is serious and focused.

Financial markets – and wishful thinking

# Leaving a trace

FS Commissioners and some of their landmark projects



Finalisation of the  
Financial Services  
Action Plan –  
**MIFID 1** enforcement

**MIFID 2** finalisation  
(2014)  
PRIIPs launch (2014)

**Review** of EU  
legislation on  
inefficiencies and  
redundancies  
(abandoned)

**Banking Union  
completion**  
(failed)

MIFID 2  
« improvement »  
(Quick Fix)  
**Retail Investment  
« Strategy »**

**Charlie McCreevy**  
(Internal market)  
2004-2010

**Michel Barnier**  
(Internal Market)  
2010-2014

**Jonathan Hill**  
2014-2016

**Valdis Dombrovskis**  
2016-2019

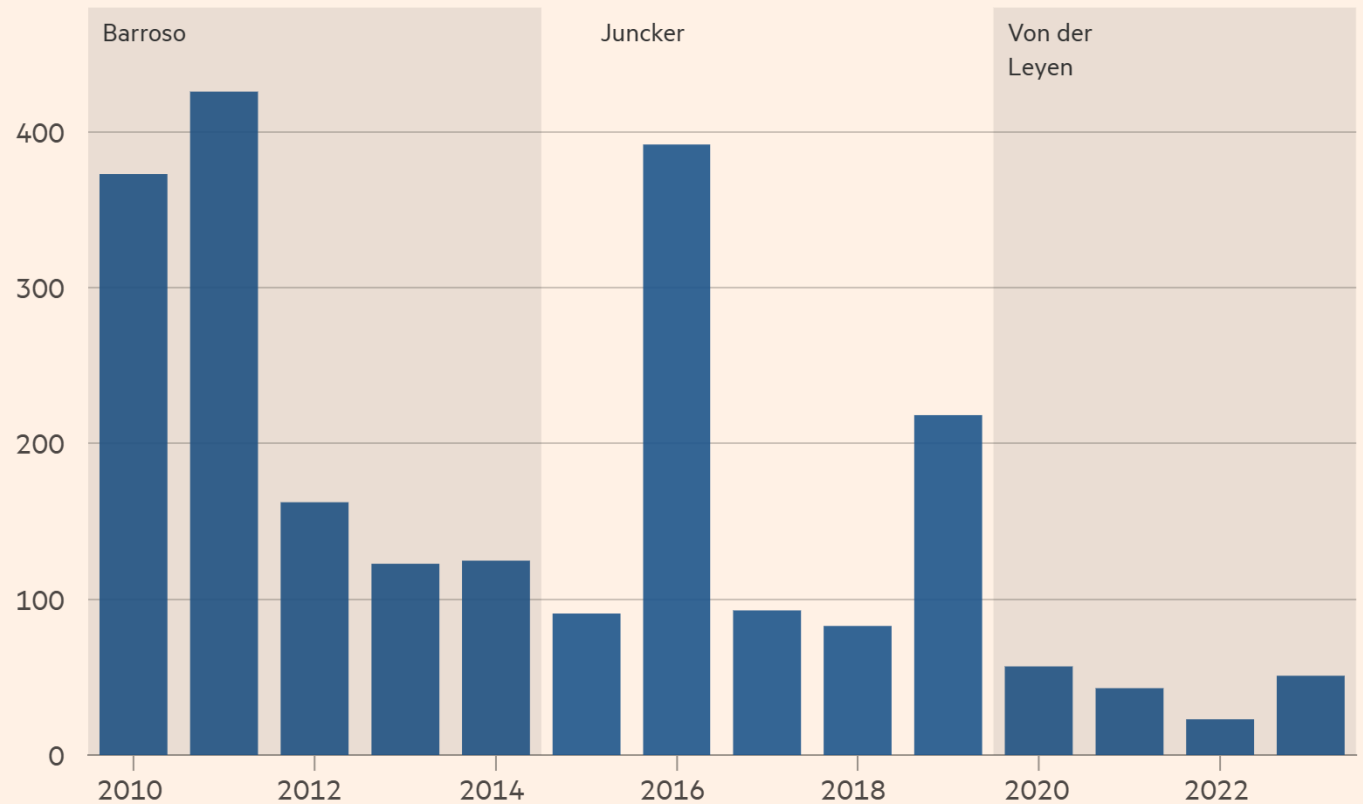
**Mairead McGuinness**  
2019-2024

# EU internal market infringement procedures

## Carte blanche?

European Commission internal market actions have decreased under von der Leyen's watch

Total infringement actions taken by the commission in relation to the internal market excluding case closures



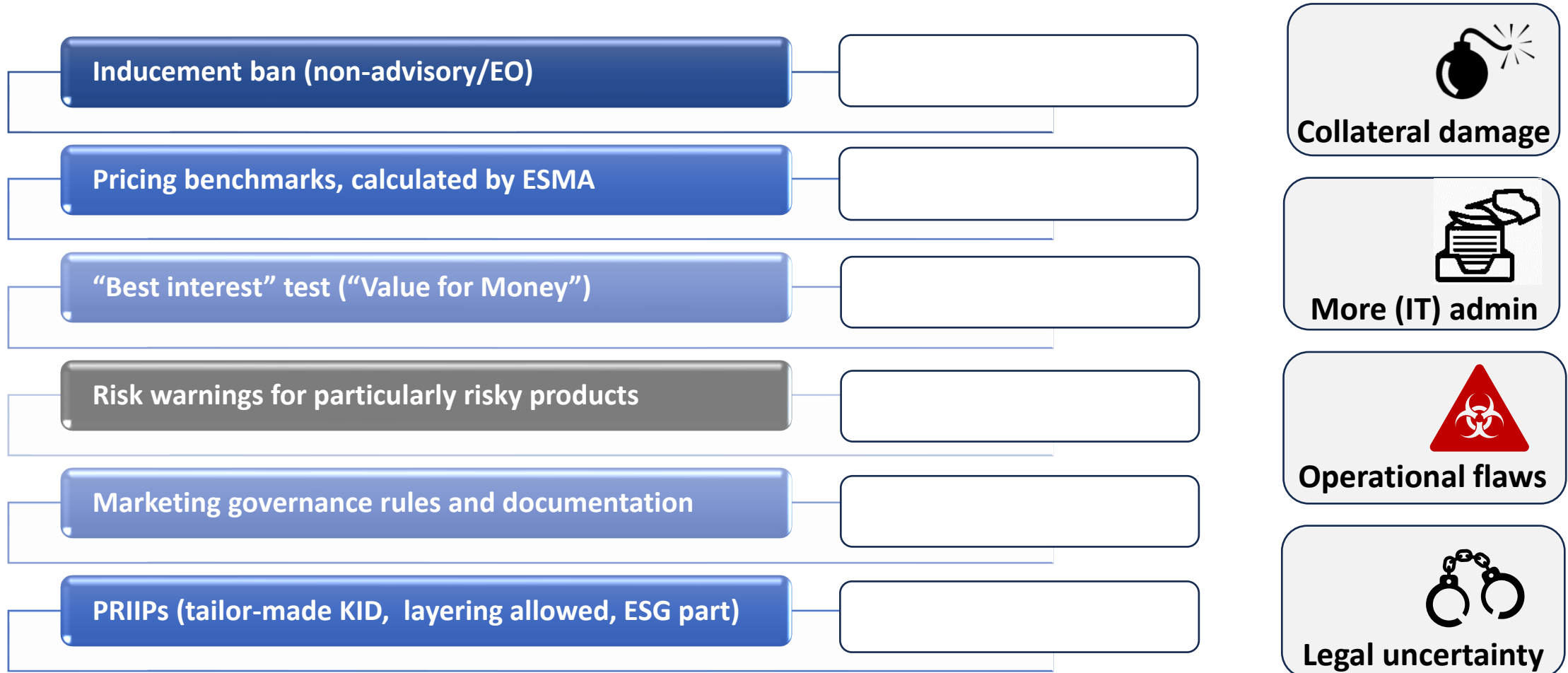
Source: European Commission • European Commission presidents: José Manuel Barroso Nov 2004 to Oct 2014; Jean-Claude Juncker Nov 2014 to Nov 2019; Ursula von der Leyen Dec 2019 to

FINANCIAL TIMES



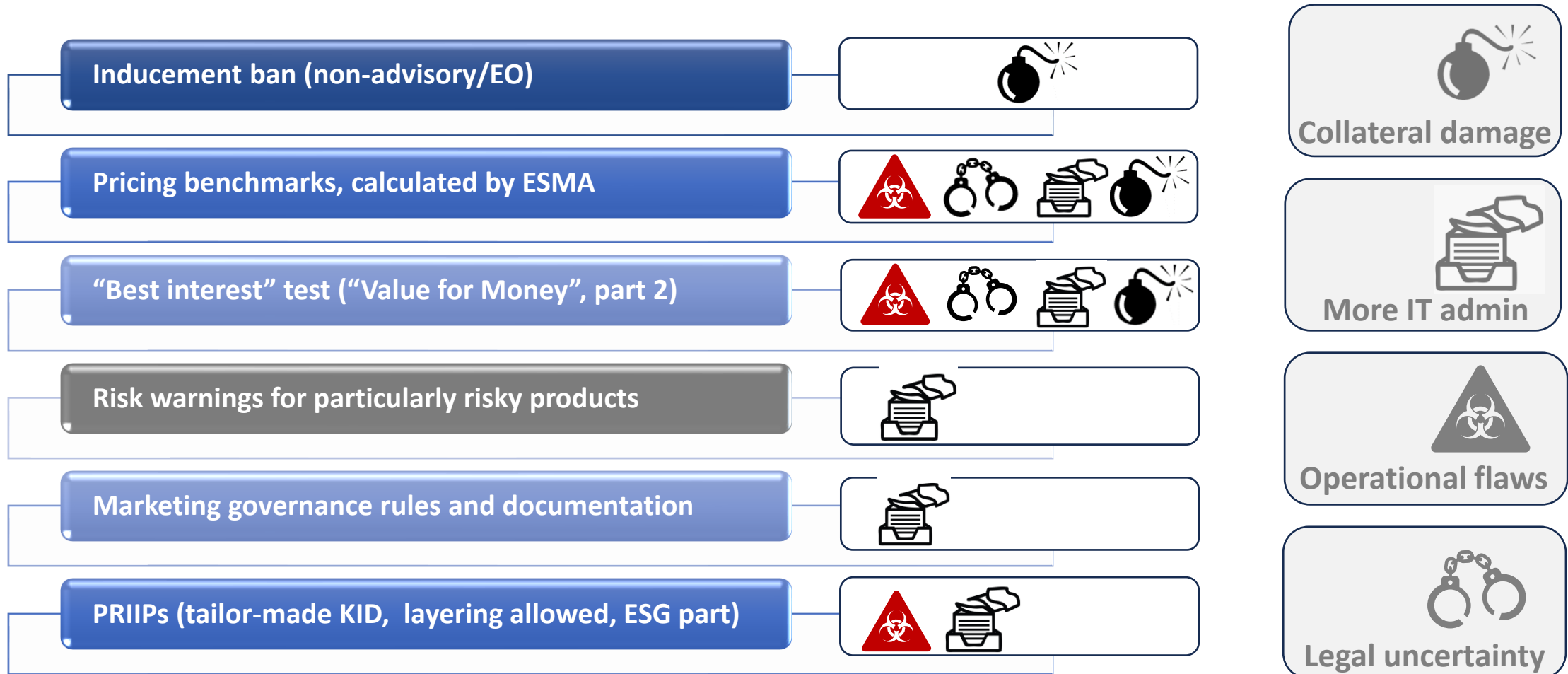
# Strategies ... or things called such.

Components of EU Retail Investment “Strategy” and their impacts



# Strategies ... or things called such.

Components of EU Retail Investment “Strategy” and impacts



# EU Retail Investment “Strategy” (RIS)

Pockets of hope

**Lowering of MIFID retail opt-out threshold (EUR 500k to 250k)**

**Riskiness no longer equated with complexity**

**“Layering” / PRIIPs KID goes digital (implementation to be seen)**

# EU Retail Investment “Strategy” (RIS)

The fundamental flaws

**No evidence for MIFID 2 shortcomings**

(making the EU look like the US seems off-mark)

**Flawed and insufficient quantitative analysis of markets**

“Kantar study disaster”

**One-sided focus on cost disclosure and reduction / no consideration of product yield**

**No consideration of taxation impact on retail investment behaviour**

**Insufficient analysis of collateral damage**

(eg, on “inducements” and PFOFs)

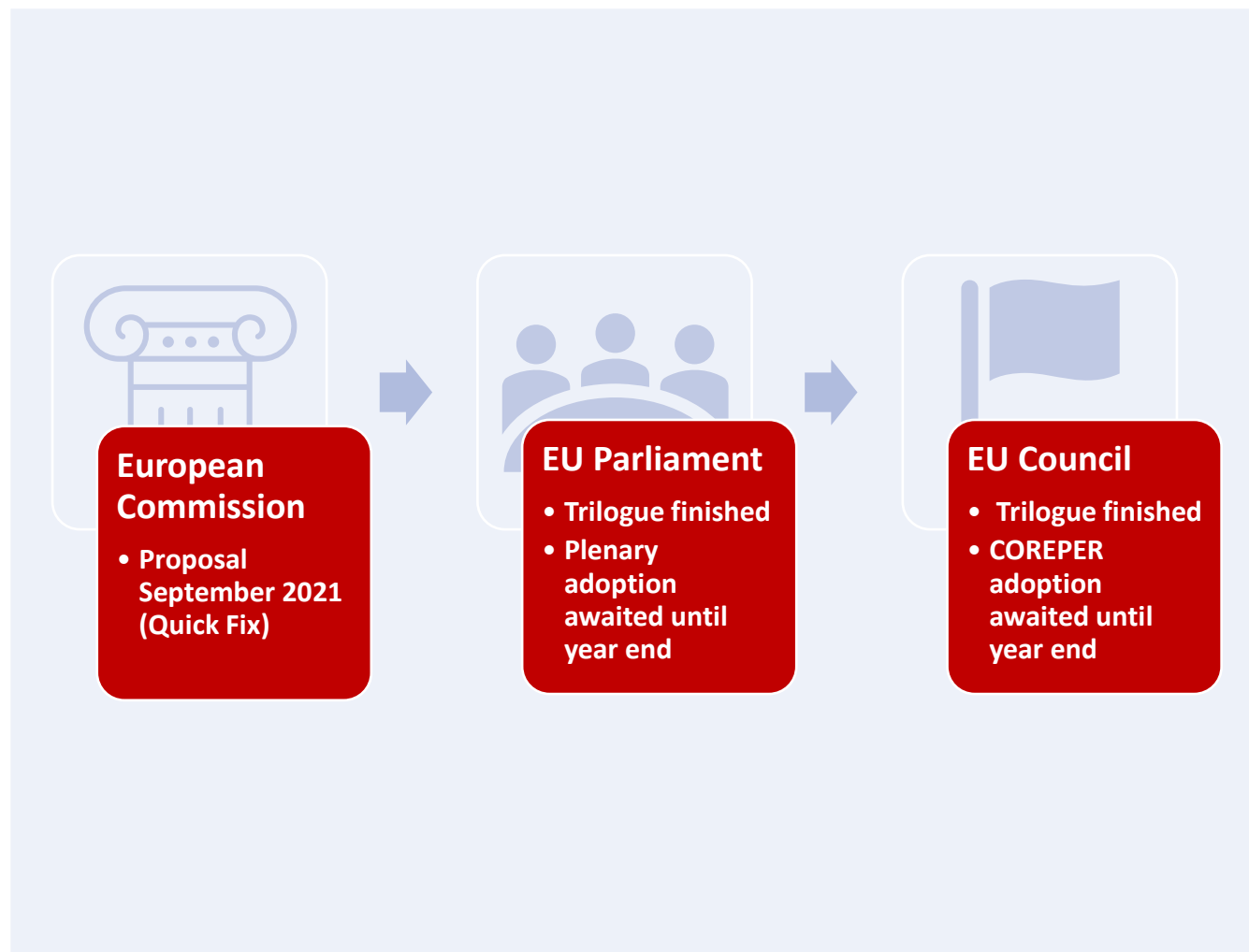
# Selected other EU work in progress (FIN)

## (MIFID) Consolidated Tape

- Will include “key information” such as the price of instruments and the volume and time of transactions.
- Exact scope of pre- and post-trade data unclear
- “Real life”: Since February, industry joint ventures already working to deliver on CP on equity markets

## (MIFID) Payment For Order Flow

- Introduction of a “general ban” on PFOF
- Possibility for a member state where PFOF is currently allowed to offer firms in its jurisdiction an exemption.
- Exemption will be phased out by 30 June 2026.
- UNCLEAR: scope of payments for order flow vs inducements under RIS





# UK and financial services 2023 - a new era?

Edinburgh reform package





***Jeremy Hunt***

*Chancellor of the Exchequer, when  
announcing the reform package on  
15 December 2022*

*“The intent of the reforms is to  
secure the UK’s status as one  
of the most open, dynamic and  
competitive financial services  
hubs in the world.”*



Trade	Financial services	EU law in UK	UK rules replacing EU law
<ul style="list-style-type: none"> <li>• <b>Trade and Cooperation Agreement</b> in force since 2021</li> <li>• Mutual WTO preferential treatment (absence of tariffs and quotas)</li> <li>• Minimum standards (safety, environmental, social)</li> <li>• <b>Selected tariffs coming (Electric vehicles)</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Memorandum of Understanding</b> (June 2023)</li> <li>• Joint EU-UK financial regulatory forum (dialogue, mutual information)</li> <li>• <b>No common framework for equivalence decisions</b></li> <li>• <b>UK clearing of EU trades accepted until 2025 (single case)</b></li> </ul>	<ul style="list-style-type: none"> <li>• Basic principle: Retained EU law (Revocation and Reform) Act 2023</li> <li>• <b>“EU law no longer part of domestic law” as of 31 December 2023</b></li> <li>• <b>Exemption: For financial industry – Financial Services Markets Bill (FSB) applies</b> – legal act for repeal/retain required</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Substantial legislative and regulatory activity 2022/2023</b> with consultations and policy proposals executing <b>Edinburgh reforms</b> and implementing the <b>Financial Services and Markets Bill (FSB) following thematic reviews</b> (Wholesale, Listing, Prospectus, etc)</li> </ul>

**EU UK – the Lords had their say**

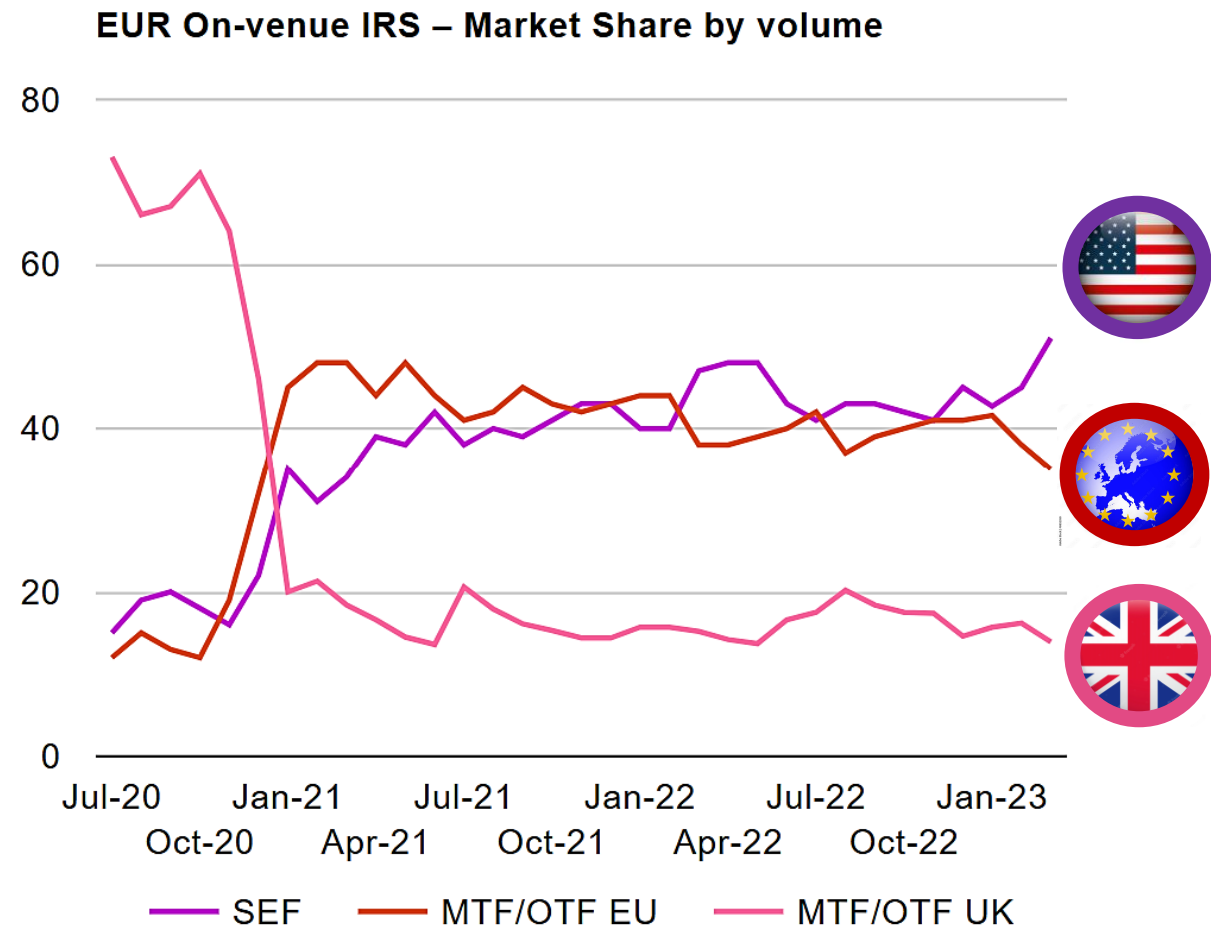
# And one winner already is ... America

## Trade execution on Euro swap market 2020-2023 (in EUR trillion)

US liquidity pool depth and EU banking sector weaknesses make swap investors looking overseas

Helpful:

US regime = “swap execution facilities” (SEF) recognised by both EU and UK as **equivalent**



# Edinburgh reform package

Kick off phases 1 and 2



## The first tranche will include:

- the Wholesale Markets Review (“WMR”) which makes substantial amendments to various parts of the MiFID framework, many of which are implemented in the FSMB
- Lord Hill’s Listing Review, following which the UK Government will repeal the Prospectus Regulation and implement a new regime for admissions to trading and public offers
- the Securitisation Review, which identified potential improvements to the Securitisation Regulation
- the review of the Solvency II Directive

## The second tranche will include:

- the balance of the WMR, which identifies significant opportunities to reform the MiFID framework
- continuing Solvency II
- the PRIIPS Regulation
- the Short Selling Regulation
- the Taxonomy Regulation
- the Money Market Funds Regulation
- Payment Services Directive and the E-Money Directive
- Insurance Mediation and Distribution Directives
- the Capital Requirements Regulation and Directive
- Long-Term Investment Funds Regulation
- the consumer information rules in the Payment Accounts Regulations 2015

The UK Government expects to make significant progress on tranches 1 and 2 by the end of 2023.

More complex pieces of retained EU law are generally lower priority.

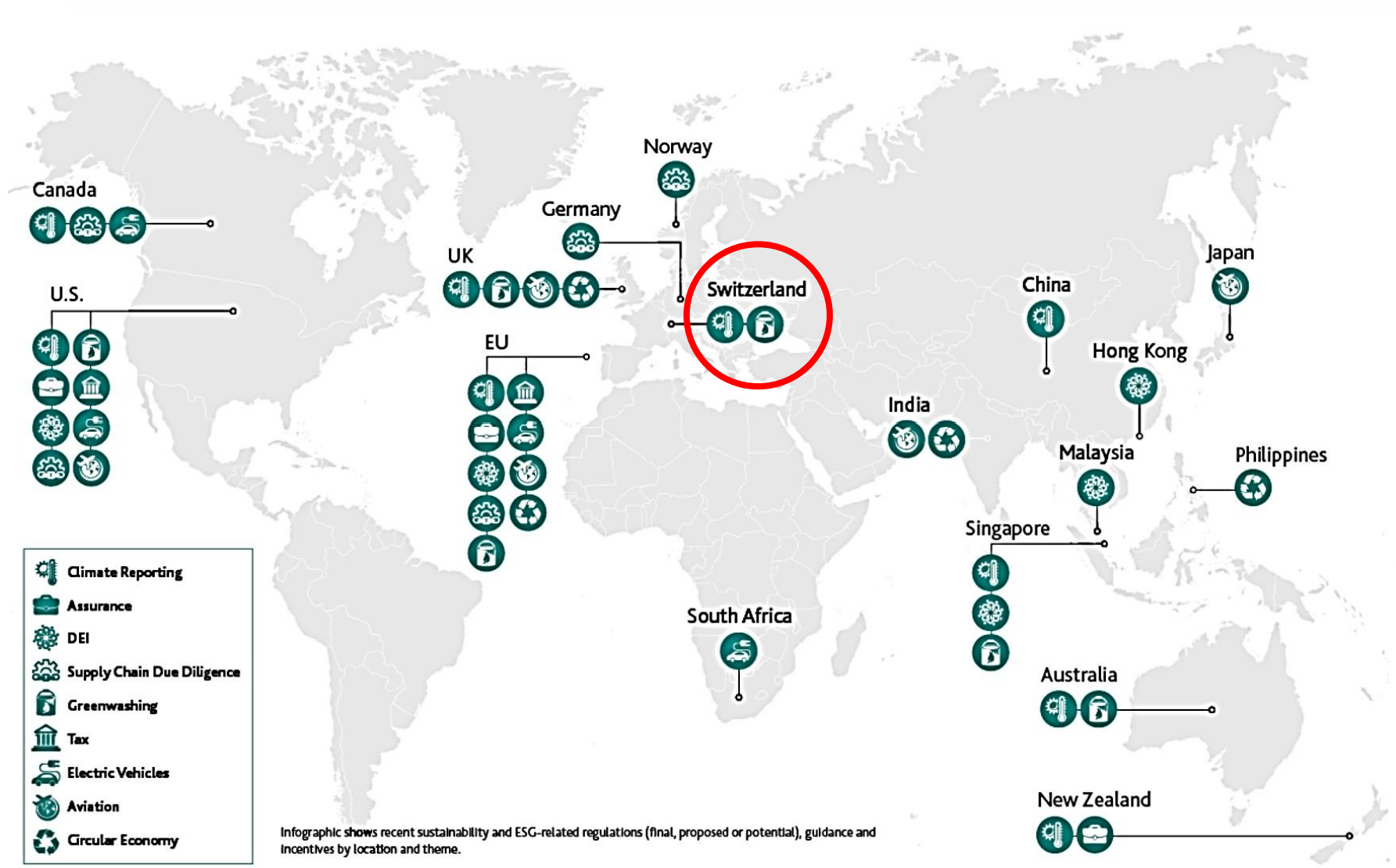


ESG – another global case





# ESG regulation 2023 Worlds apart

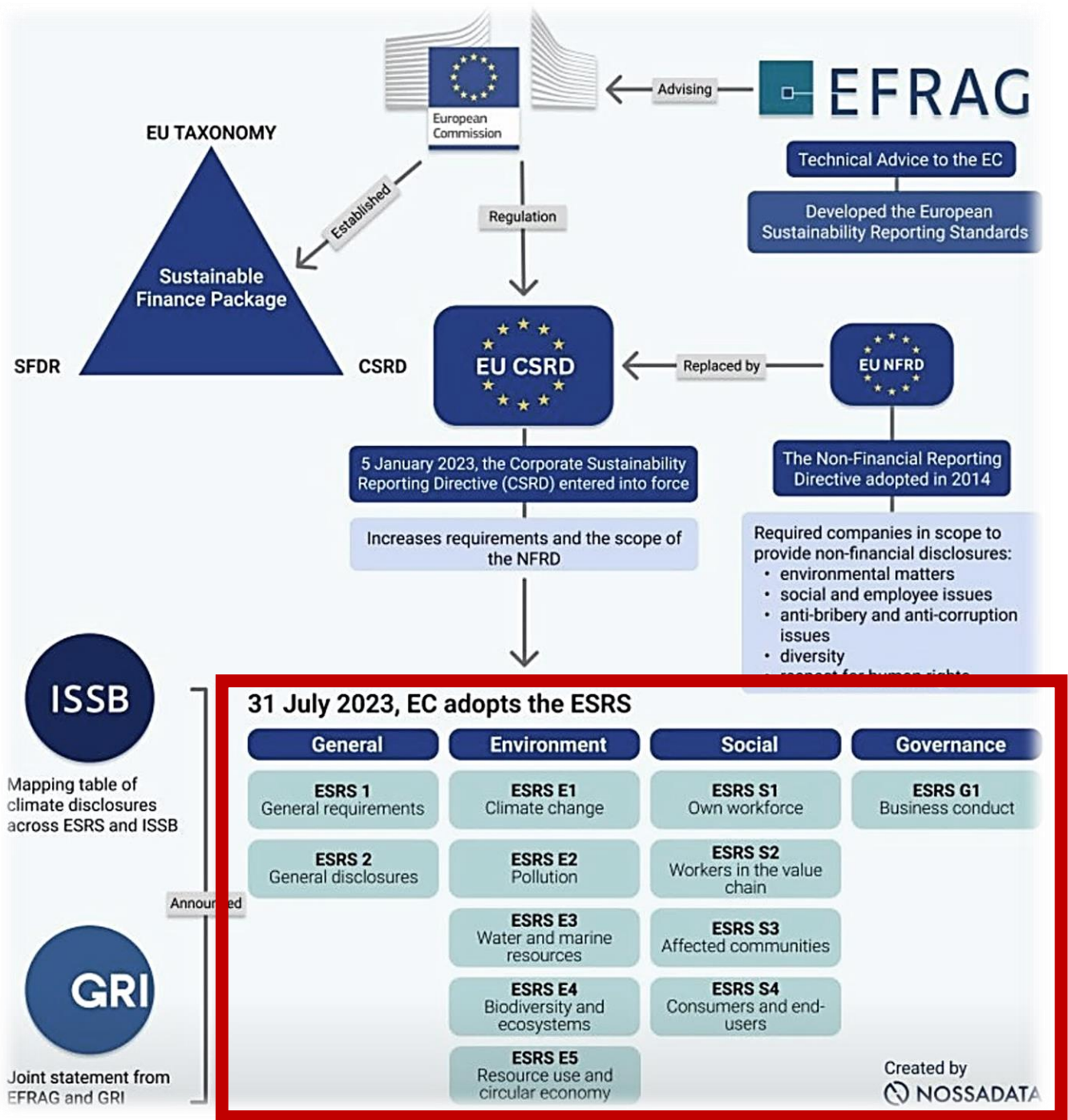


DEI – diversity, equity and inclusion

Source BDO US, state Feb 2023

Update – July 2023  
Commission adopts first ESRS

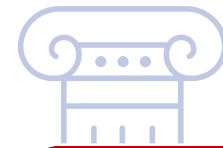
 [LINK](#)



# Selected other EU work in progress

## ESG Rating Provider Regulation [LINK \(COM\)](#)

- ESG rating providers to be supervised by ESMA
- ESG rating providers obliged to review ESG ratings on an on-going basis and at least annually.
- Introduction of new organisational requirements ensuring the prevention and mitigation of potential conflicts of interests.



**European Commission**  
• Proposal June 2023



**EU Parliament**  
• To come



**EU Council**  
• To come

## “EU AI Act” = Regulation on Artificial Intelligence

(incl. EP amendments)

- Introduction of “unacceptable”/”high”/”low risk” AI categories
- Full ban on Artificial Intelligence (AI) for biometric surveillance (- Council permits it for law enforcement), emotion recognition, predictive policing
- Generative AI system users to disclose content was AI-generated
- Election-interfering AI considered “high risk”

[LINK \(EP\)](#)



**European Commission**  
• Proposal 2021



**EU Parliament**  
• Negotiating position adopted by plenary June 2023



**EU Council**  
• Common position adopted December 2022

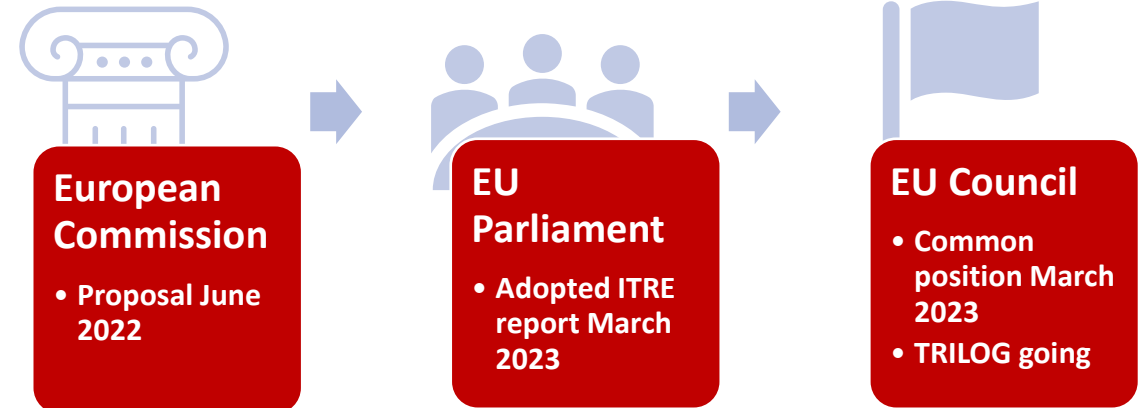


# Selected other EU work in progress

## EU Data Act (Regulation)

●  
LINK (PRES compromise)

- New rules to govern the sharing of data generated through the use of connected products or related services (e.g., Internet-of-the-thing, industrial machines)
- Rules **allowing public sector bodies** to use data held by companies where there is an exceptional need (e.g., public health emergency).
- New rules to facilitate switching between providers of cloud services and other data processing services
- **Limitations on international data transfer by cloud service providers.**



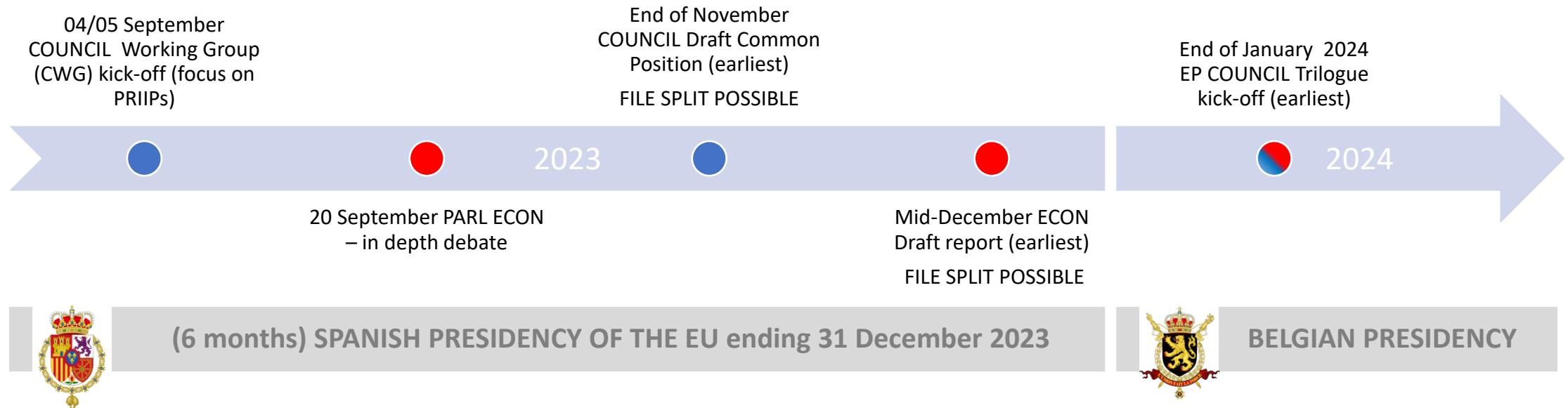
Thanks for  
listening.

Your  
comments &  
questions.



# Timeline RIS

(estimates-provisional indications AUG 2023 / **subject to change**)



## Comments:

- The Spanish presidency announced in July to hold **two monthly CWG meetings on RIS issues starting as of 04/05 September**.
- While Germany has unofficially indicated its ambition to push for a Common Position ready before end of 2023, other Members States have voiced fierce opposition to core elements of the RIS (notably France and Italy) and their unwillingness to bow to any timeline commitment.
- Due to European elections in 2024 (06-09 June), Parliament is unlikely to enter into a trilogue procedure on any file not ready by end of December 2023.
- **Depending on the difficulties of the CWG and ECON negotiations on the two separate legislative proposals it cannot be excluded that the RIS file is split in two (Omnibus directive/MIFID related changes and PRIIPs regulation related changes) that are processed separately.**