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From: General Secretariat of the Council
To: Financial Services Committee
Subject: FSC's Chair letter to the EFC President
Council of the European Union
Financial Services Committee
The Chair

Brussels, 31 January 2020

To: The President of the Economic and Financial Committee

Subject: Outcome of discussions at the FSC meeting on 22 January 2020

Dear Hans,

I would like to draw your attention to the main issues were discussed at the last meeting of the Financial Services Committee on 22 January 2020.

Firstly, the Committee discussed digital finance and cyber risk. The European Systemic Risk Board (ESRB) stressed that cyber risk occurrence may indeed become systemic. This calls for a new conceptual framework focusing on the contagion and amplification channels. The ESRB will explore a number of mitigants including communication and coordination between authorities and market players.

The Commission spelled out the main elements of their digital finance strategy and announced a Communication and two legislative proposals on crypto-assets and digital operational resilience respectively for the third quarter of 2020.

FSC members welcomed the proposals. To strengthen digital operational resilience, some stressed the need to amend the directives on the security of network and information systems and on critical infrastructure, including by extending their scope to the entire financial sector. Others recommended the extension of the authorities' oversight to critical third-party providers, typically, cloud services providers and the harmonisation of know-your-customer and e-identity standards to curb criminal digital activities. Members would welcome an integrated EU approach to cyber risk in the financial sector that supports the development of the digital Single Market, taking into account the cost of data collection.

Members are looking forward to the legislative proposal on crypto-assets, targeting both regulated and unregulated crypto-assets, taking into account the outcome of the public consultations and based on a
First, we discussed the need for a proportionate and globally coordinated approach that provides legal certainty, while addressing risks stemming from digital innovation.

Secondly, we discussed the experiences of some Member States with the IMF's Financial Sector Assessment Programmes. FSC members generally considered the exercises useful. Nevertheless, members from countries that went through such assessment mentioned that the process is resource-intensive and demanding, especially for smaller administrations, thus calling for simplification and better preparation. Members also mentioned the need for the IMF to better reflect in a timely manner the elements of the EU's financial supervision and resolution architecture in their assessment programmes and in the recommendations to efficiently focus on national FSAPs, while acknowledging areas of overlap between the euro area FSAP and the national context.

Thirdly, we touched upon the work of the European Supervisory Authorities (ESAs) in the area of sustainable finance, including short-termism. In particular, the Commission will consider ESMA’s findings on sell-side analysts, in the context of the MiFID II research framework, monitor the application and effectiveness of the revised Shareholders Rights Directive and review the Non-Financial Reporting Directive, pending an ongoing fitness check on public corporate reporting. Additionally, the Commission’s renewed sustainable finance strategy, announced in the European Green Deal communication for the third quarter of 2020, will take into account the ESAs’ findings and policy-recommendations on short-termism. For the banking sector, the Commission is preparing the upcoming review of CRR and CRD that will further incorporate Environmental, Social and Governance considerations. Efforts for international consistency are being pursued through the International Platform on Sustainable Finance. The ECB announced that it is conducting a review of its monetary policy strategy, including an assessment of how environmental sustainability can be relevant in pursuing the ECB’s mandate, although it was still too early to announce any concrete initiative.

While welcoming the integration of sustainability in prudential framework, members outlined that the requirements should remain risk-based. Members also called for a holistic approach to sustainability and insisted on the need for transparency of key metrics, but also on the need to support financial innovation and financial education. They called for more work on green bond standard and Eco-labels, as well as on the development and implementation of the recently approved taxonomy, especially as regards the treatment of specific sectors.

Fourth, we have been informed by the EIOPA on the results of the 2019 Occupational Pension Funds stress test and by the ESRB on the macro-prudential risks related to the valuation of banks' level 2 and level 3 assets.

Fifth, we have restarted the tradition of meeting representatives of the EP's ECON Committee. Over lunch, we discussed with ECON representatives, led by their Chair Ms. Tinagli, general topics of
mutual interest, such as the Banking Union, Basel III, Capital Markets Union, Fintech, Sustainable finance and Anti-Money Laundering.

Finally, we have been updated by the Presidency on their priorities, by the Commission on international financial regulatory issues, by ESMA on their Annual Report on the EU derivatives market and by the FSC's Vice-Chair of the latest meeting on the Euro Retail Payments Board.

Yours sincerely,

(signed)

Harald Waiglein