bankenverband

Strengthening Europe and its financial sector

An agenda for the coming five years

Short version – May 2024

Agenda

At-a-glance

Europe is more important than ever. An open, democratic Europe is not only essential for our cohesion and our social progress, but also vital for our economy. The private banks are demonstrating how competitive and attractive Europe can be, also in the future – for its citizens, the economy and a strong financial sector.

What does the Association of German Banks expect from the European Commission and the European Parliament for the financial sector in the coming legislative period?

We believe it is very important that the European Union becomes faster and more pragmatic. The Council and the Parliament have been unable to adopt a series of proposals by the current Commission before the election.

These include the review of crisis management and of deposit insurance, the Retail Investment Strategy and the legal framework for the digital euro. The European Parliament and the Council will take up this dossier and continue their legislative work after the election. We are keen to see that these projects are implemented in such a way that they strengthen our competitive power and do not lead to new bureaucracy.

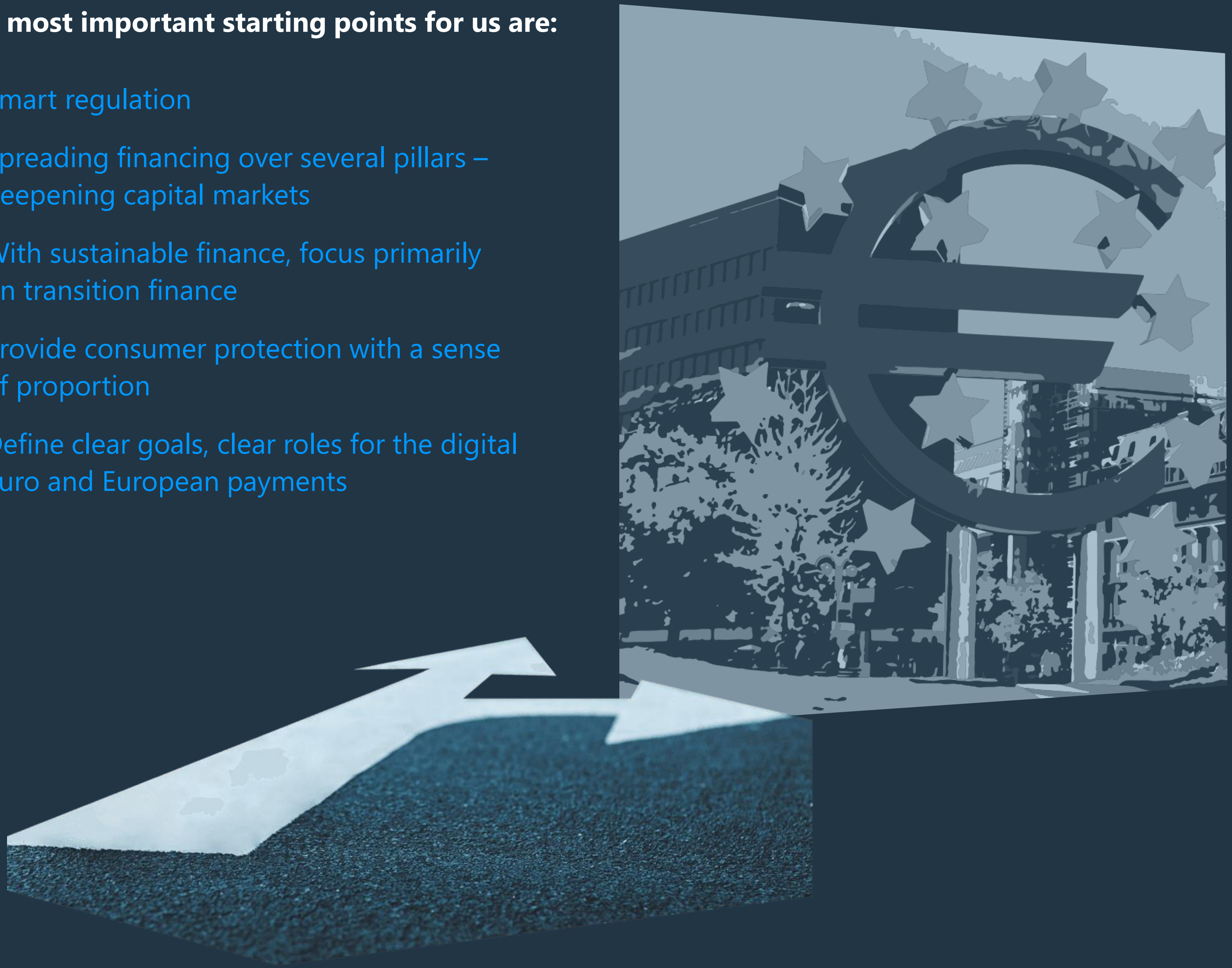
At-a-glance

However, at the same time, we need new ideas for a smart regulation agenda that promotes Europe's strengths and competitiveness. An agenda that allows Europe to be more sovereign and resilient on the international stage. Now is the time to gather these ideas, to bundle them together and then implement them.

Particularly for financial market regulation, continually adopting more, new requirements is not an option. Every regulatory initiative and each reform of existing financial market regulation should be aimed at making financing and investment more competitive in the EU and helping the financial sector as a strategic industry in the EU to better serve its customer in the future.

The most important starting points for us are:

- Smart regulation
- Spreading financing over several pillars – deepening capital markets
- With sustainable finance, focus primarily on transition finance
- Provide consumer protection with a sense of proportion
- Define clear goals, clear roles for the digital euro and European payments



01

Banking regulation

01 Banking regulation – taking a holistic and smart approach

The European banking market is stable – also thanks to regulation introduced in recent years. But, equally, the EU legal framework, which has developed over the past 15 years, has become very complex. Its complex, and in some cases even contradictory, nature has increasingly become a considerable competitive disadvantage for European banks.

Europe needs strong and efficient banks, among other things, to finance the green transformation. In order to make the regulation fit for the future, there needs to be a greater focus on financial stability and therefore also on competitiveness. And, in doing so, it won't be sufficient simply to look at individual regulatory requirements because the initiatives of the various institutions overlap and taken collectively, represent a considerable burden. However, Europe's banks require a consistent, efficient and practicable regulatory framework.

It is time to review the various requirements, get rid of redundancies and inconsistencies, and thereby design a more efficient EU regulatory system overall. Accordingly, the most important prudential regulatory frameworks for our sector should undergo a holistic review.

Objective: to analyse overlaps, solve contradictions and simplify the European framework in general.

01 Banking regulation – taking a holistic and smart approach

Not least, important elements need to be addressed to further advance banking union. Here too, the European Union should finally stop looking at everything from the crisis perspective after 15 years. Instead of continuing to focus on deposit insurance and resolution systems, the next EU Commission should also work intensively towards a truly integrated single financial market in the field of banking union.

A domestic market for Europe in which capital and liquidity flow freely and one in which the group perspective should be key for European banking supervision.

Ultimately, it is a matter of harmonising banking and the capital markets. This would also reduce the effort of having to repeatedly amend special national regulations for banks. In the short and medium term, this will reduce the number of separate national approaches and incidences of gold-plating and will allow banking management to be based on standardised regulations throughout Europe.

02

Capital markets

02 It won’t work without deeper capital markets

Although we have been discussing capital markets union for many years now, progress has been too slow.

Nevertheless, creating a European capital market is finally right at the top of the European agenda.

In April 2024, the European Council decided to press ahead with capital markets union and made nine concrete proposals to achieve this. Further reports (Eurogroup, Enrico Letta, Christian Noyer) also contain proposals. The Association of German Banks also recently published a position paper. The current political dynamic makes us optimistic that substantial progress can be made.

If Europe wants to have more businesses that are once again global leaders, we need a liquid and deep European capital market that finances the economic growth. To finance the transformation to a digital and sustainable economy alone, the capital needed will be enormous. Without the opportunities offered by the capital markets, it will not be possible to make the investments required. Without capital markets union, the Green Deal simply will not work.

To do this, the European capital markets will need to be further developed in key areas. It is very important not only to revitalise the securitisation market but to mobilise more investors as well. Securitisation builds the bridge from bank-based corporate financing to the capital market. It allows financing to come from private investors and, at the same time, create capacity for further financing opportunities through our banks.

02 It won’t work without deeper capital markets

The securitisation process should be reviewed to make it more efficient overall. We therefore welcome the corresponding mandate issued to the Commission by the European finance ministers. Fine adjustments here and there will have no impact. Possible starting points include allowing pan-European securitisations, achieving more market-related and statutory standardi-sations and simplifying market entry.

The clearing market in the EU should also be further strengthened. To achieve this, bureaucratic hurdles would need to be removed from the overall regulatory framework for capital markets and market liquidity would have to be given the same special status as market integrity and financial stability. The harmonised civil law framework consisting of the Financial Collateral Directive and the Finality Directive is more than 20 years old. It urgently needs to be modernised and adapted to business developments.

International investors will only be keen to invest their money in the EU if the framework conditions are attractive and competitive.

We also support the idea of encouraging EU citizens to invest their savings in securities. However, existing products and securities accounts should be used for this. We propose setting up and promoting retirement savings accounts. This should allow consumers to build up long-term wealth independently and easily.

03

Consumer protection

03 More rules do not mean more consumer protection

In recent years, European legislators have regulated consumer protection in increasing detail. At the same time, we need appropriate consumer policies more than ever. Not least, the example of the Retail Investment Strategy (RIS) shows that well-intentioned regulation is not always done well.

Wanting to pave the way for retail investors to access the capital market and invest in securities solely by focusing on low costs will not work. This applies all the more if it also leads to even more bureaucracy and a shrinking range of offers.

Lots of new detailed rules for investment service providers and a flood of mandatory information not only make it more difficult for banks to sell securities, but also deter consumers from investing in them.

However, they are needed for building wealth over the long term – also given the EU’s demographic challenges – in order to ensure an adequate standard of living in retirement.

03 More rules do not mean more consumer protection

The RIS is just one of many examples of excessive regulation in the sector. In our opinion, good consumer protection legislation should be geared to the following basic principles:

- Customers need quality not quantity.
  They should be given all the information they require to make informed decisions. However, when they are given too much information, they are often no longer able to sufficiently understand and take it all into account.

- Individual advice should be available on request, but it should not be mandatory.
  If consumers want to be advised, they should be able to receive advice that is tailored to their individual needs.

- And finally, the same rules should apply to the same services with the same risk.
  This means that all businesses that offer customers substitutive or even identical banking or financial services, should also be subject to the exact same regulatory and supervisory requirements.

04

Sustainable Finance

04 Dark green only is not enough – pragmatically advancing Sustainable Finance and climate protection

Over the past five years, the EU has created a comprehensive legal framework for sustainable financing. The aim was to make sustainability considerations an integral part of the decision-making processes of businesses and financial institutions and divert more capital into the transformation. It has produced a very comprehensive, though sometimes opaque, system that contains many duplications and inconsistencies.

Now is the time to review and readjust this framework.

But sustainability regulation should not be an end in itself. It must serve to achieve the objective of effectively mitigating climate change with market-based means. The review should focus on competitiveness, consistency, practicability and effectiveness.

Ultimately, we need a more streamlined regulatory framework that places a greater focus on “greening”.

Banks should not only finance businesses that are already “green”, but they should also actively accompany the transformation of the economy. The EU taxonomy is so far not designed for transition finance and offers no effective control options. An independent, principles-based framework for transition finance linked to transition plans would be more beneficial. The objective should not be to want to regulate everything in detail.

Advantage

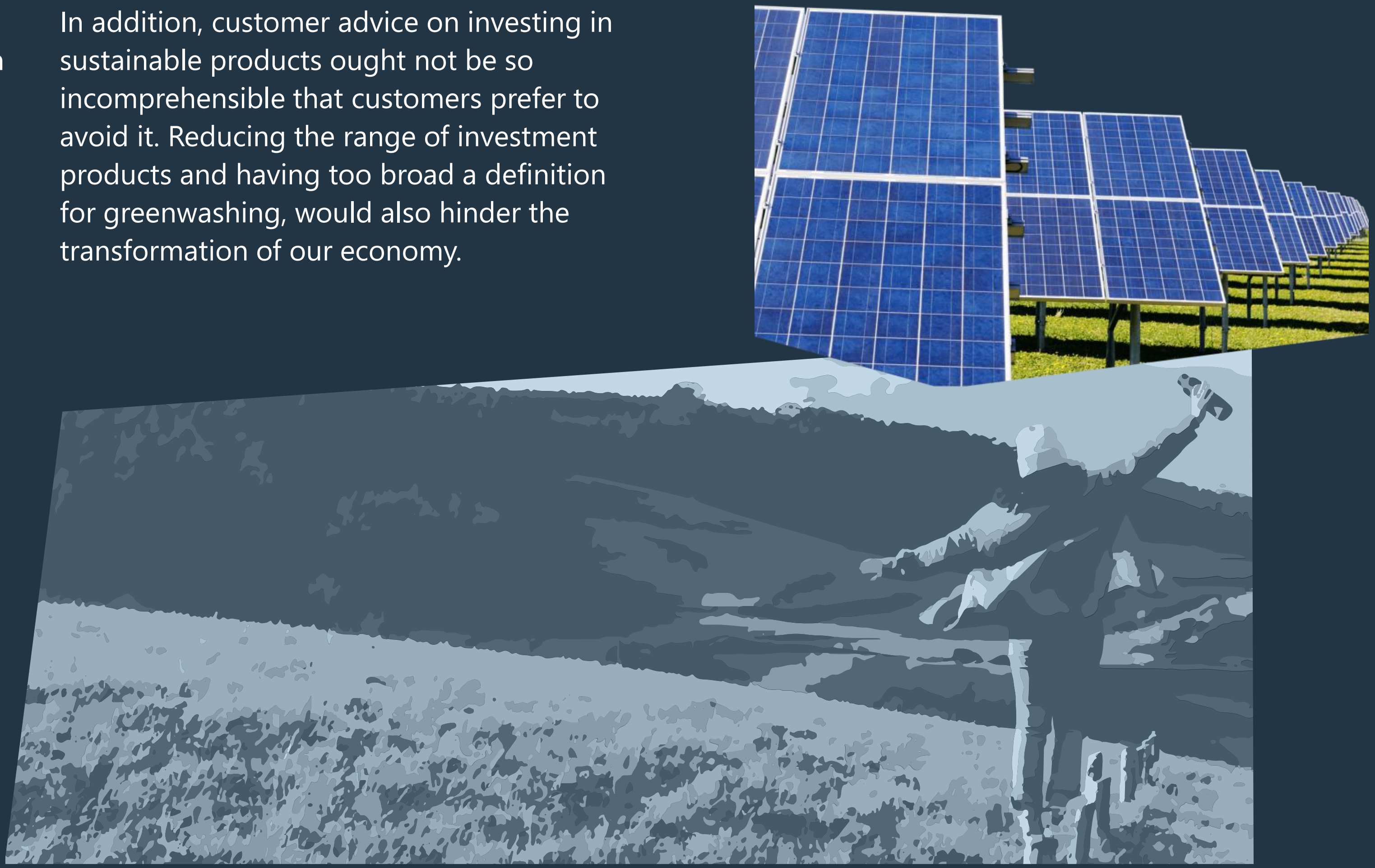
Instead of selectively focusing on activities that are already sustainable, it is more a matter of developing a dynamic towards more sustainability and enabling a comprehensive assessment of entire economic sectors. Crucially, it should also include companies that are currently emitting large amounts of CO_2 and support them as they re-engineer their business models towards more sustainability, all based on specific, scientifically sound transition plans.

04 Dark green only is not enough – pragmatically advancing Sustainable Finance and climate protection

In addition, the required ESG data should be easily accessible. The completion of the European Single Access Point (ESAP) will be vital here. An EU Energy Performance Certificates Register and data/maps about physical risks are also required.

We must also create positive incentives for businesses. Long-term incentives, such as tax breaks and simple promotional measures are important to motivate businesses to integrate sustainability.

In addition, customer advice on investing in sustainable products ought not be so incomprehensible that customers prefer to avoid it. Reducing the range of investment products and having too broad a definition for greenwashing, would also hinder the transformation of our economy.



05

Digitalisation and the payments market

05 Clear roles, clear goals for the digital euro and the European payments market

For European sovereignty and resilience in the digital era, it will be vitally important to create innovative ecosystems – such as for the digital euro or electronic identification (eID). Cooperative cross-sector frameworks will be able to significantly advance the European payments market and data exchange.

The European payments market has produced innovative, secure and efficient methods. The basis for this was and is harmonised EU payments legislation that has been in place since 2009. And it's a good example of how to allocate roles properly: Banks offer payment products, the legislator defines the legal framework. However, this allocation of roles has since been called into question.

For example, with the digital euro, which is being designed as the ECB's state payment system – in competition with private offers.

An effective legal framework must return to the tried and tested allocation of roles. This is a crucial requirement in driving European payments forward.

It should set the right incentives for investment and cooperation, promote innovation through market incentives and not prevent it through "prescriptive" legislation and through conflicts with other policy objectives, such as consumer protection.

05 Clear roles, clear goals for the digital euro and the European payments market

One of the tasks for EU legislators will therefore be to define clear framework conditions for a successful digital euro. Firstly, they will need to consider in depth its effects on financial market stability, in particular. This has not yet happened to a sufficient degree. Secondly, the ECB should not interfere with private business models, as it has with the payments market. The ECB's role as operator of a de facto state payment system interferes with the competitiveness and innovative strength of the EU payments industry. This step would lead to a conflict of interests as the ECB would be both the supervisor and a direct competitor of the banks.

Crucial for the success of the digital euro is that it offers clear benefits for citizens. Simply providing only the central banks with a potential benefit will not be enough.

It must also ensure economic viability for all stakeholders. We therefore need a broad public discussion about its introduction. A digital euro with lots of flaws might not be well accepted, could do considerable damage to the European financial market and undermine confidence in the European institutions. This must not happen.

The ECB, the EU Parliament, the Commission and the financial industry should therefore work together to design a successful digital euro. We stand ready to do so.

Contact us

Ute Schmaltz

Director, Head of European and International Affairs

Dr. Kerstin Altendorf

Director, Media Spokeswoman

+ 32 2 788 22 02

ute.schmaltz@bdb.de

+49 30 1663 1250

kerstin.altendorf@bdb.de