

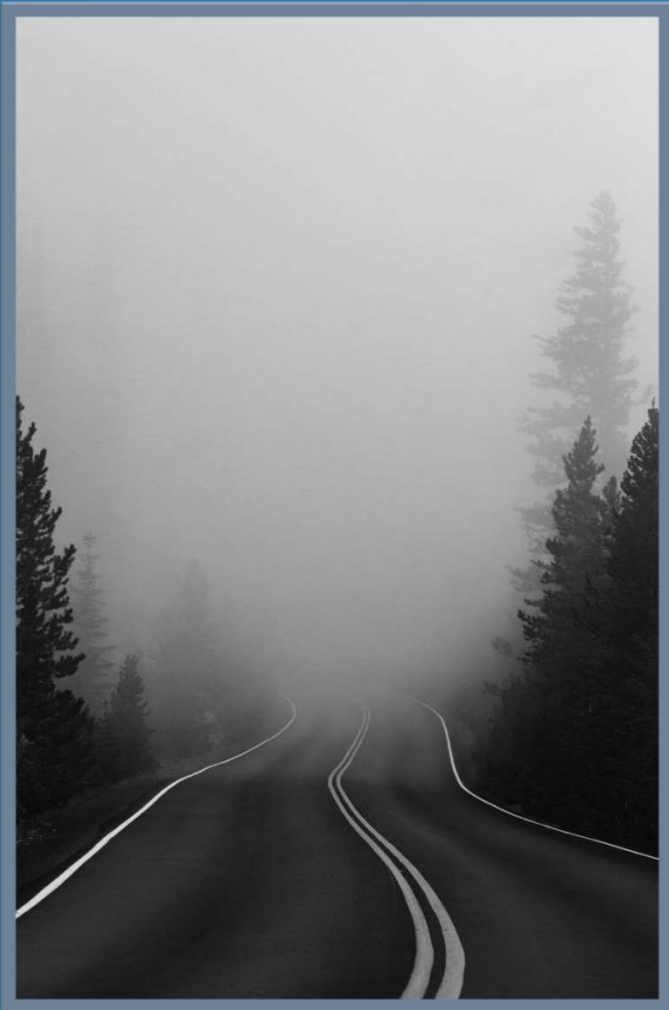
# Fahren auf Sicht | Fog ahead Quo vadis EU?

---

UPDATE ON SELECTED MARKET AND POLICY  
TRENDS

THOMAS WULF

27 JAN 2022



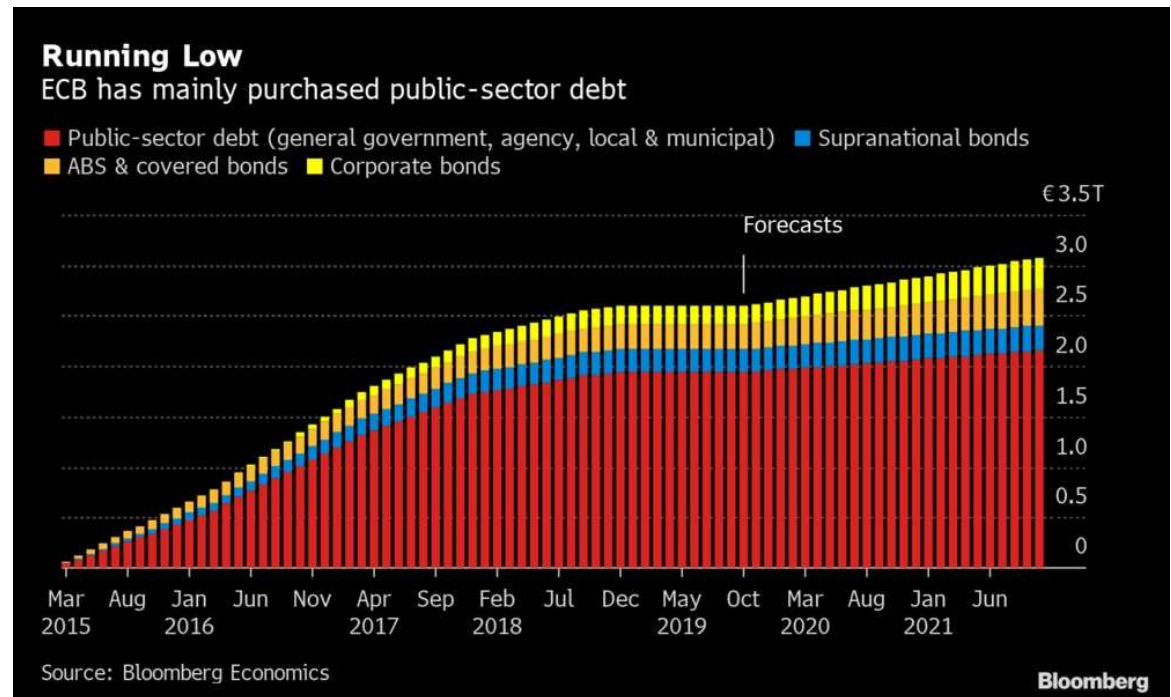
All those bonds.

---

# Exiting QE



The Economist



# QE exit scenarios | asset sales and interest rates

Figure 4.2. Central bank balance sheets are expected to remain large relative to history

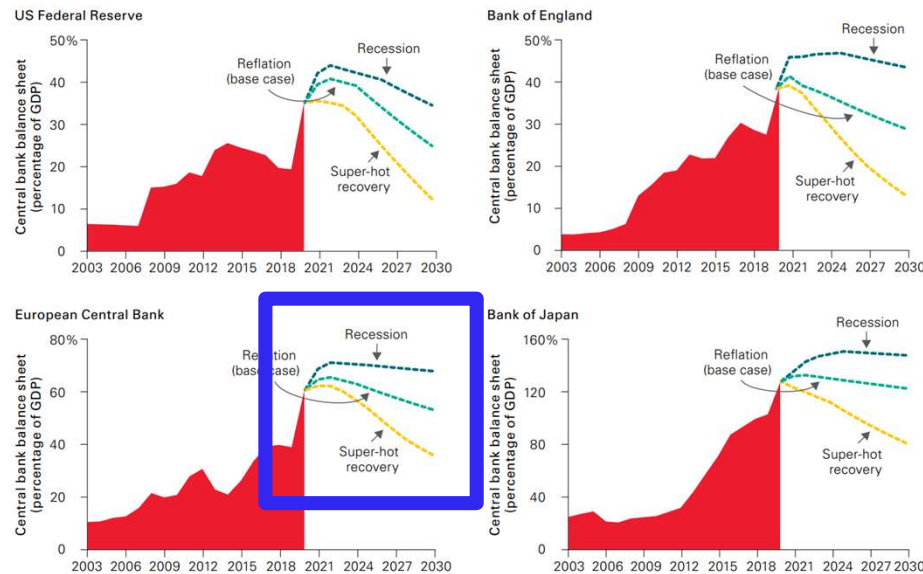
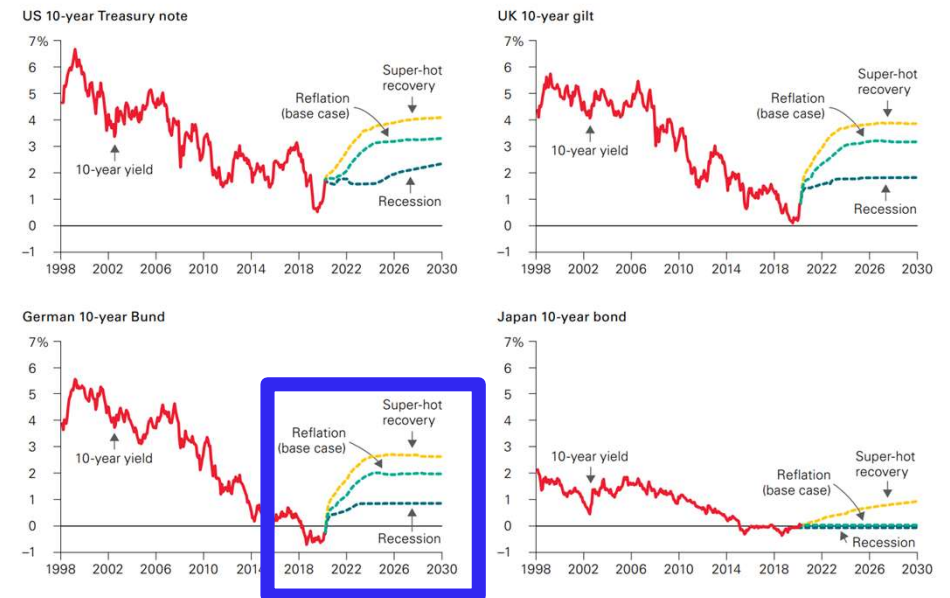


Figure 5. 10-year bond yields are expected to remain below pre-GFC levels



Source Vanguard study, July 2021

<https://www.vanguardinvestments.se/documents/unwinding-loose-monetary-policy-eu-en-pro.pdf>

Main markets around us.

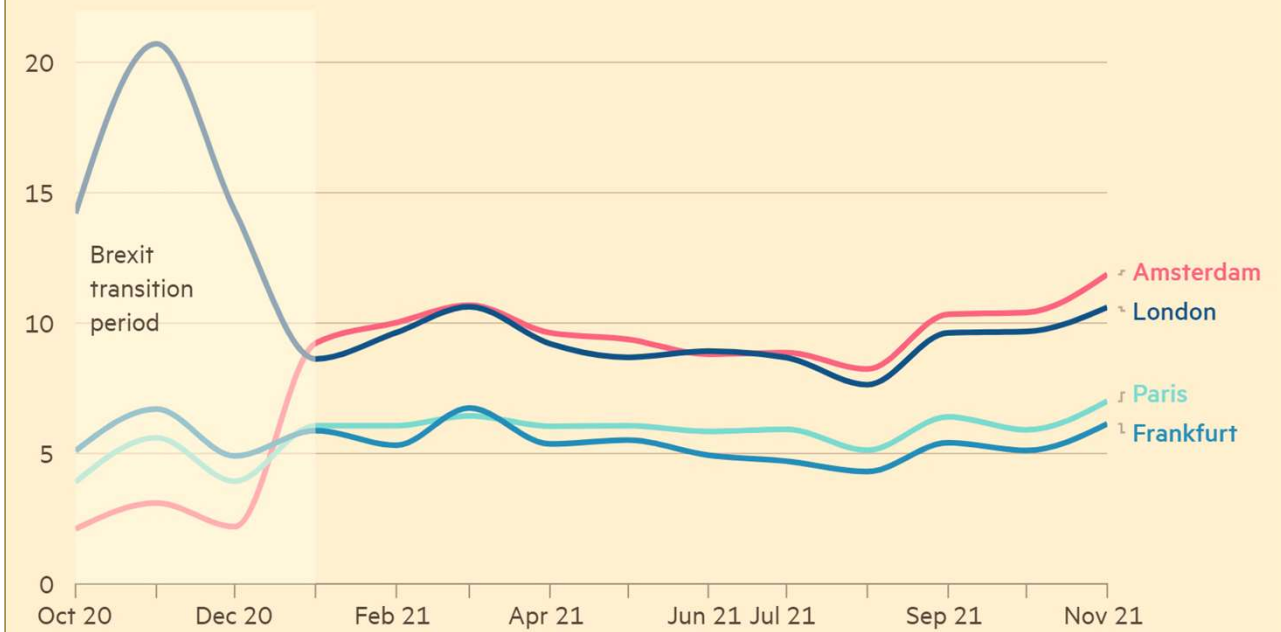
---

# BREXIT Lesson 1

Money moves quickly.

## Amsterdam has outpaced London in equity trading

Average daily value (€bn)



FINANCIAL TIMES

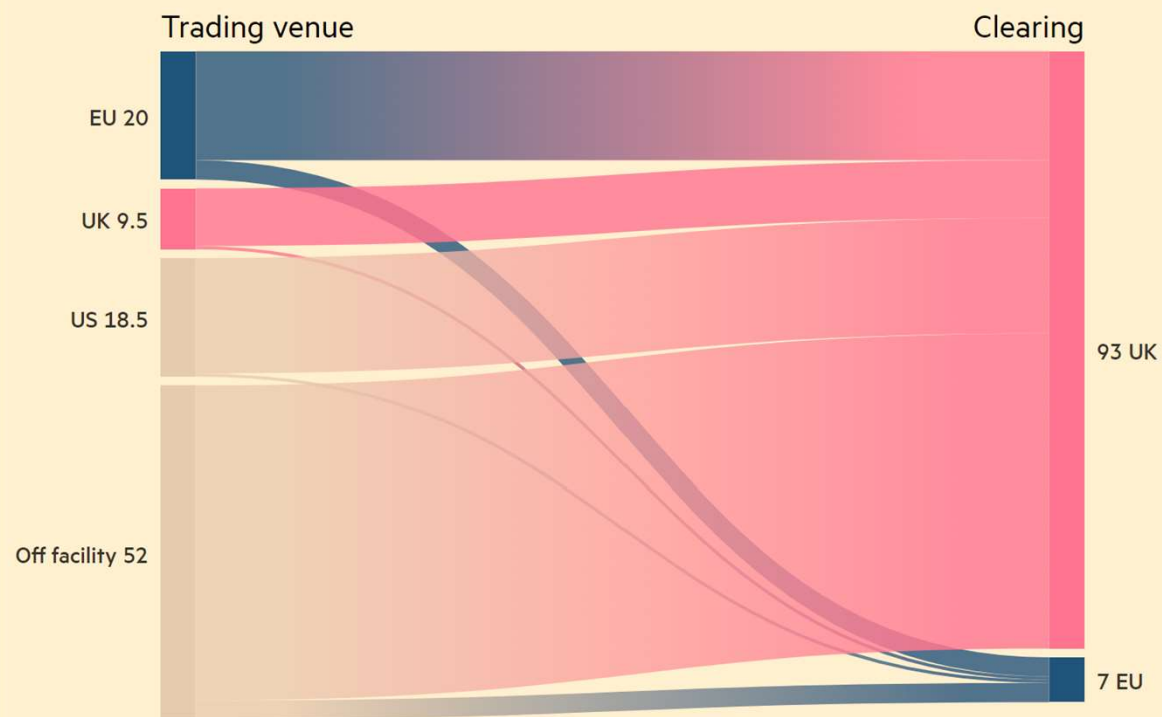
Source: CBOE Europe  
Includes alternative venues as well as main markets

# BREXIT Lesson 2

Money is not stupid.

## EU fails to dislodge UK's global dominance of clearing

Trading and clearing flow of euro interest rate swaps, by notional traded Q2 2021 (%)



FINANCIAL TIMES

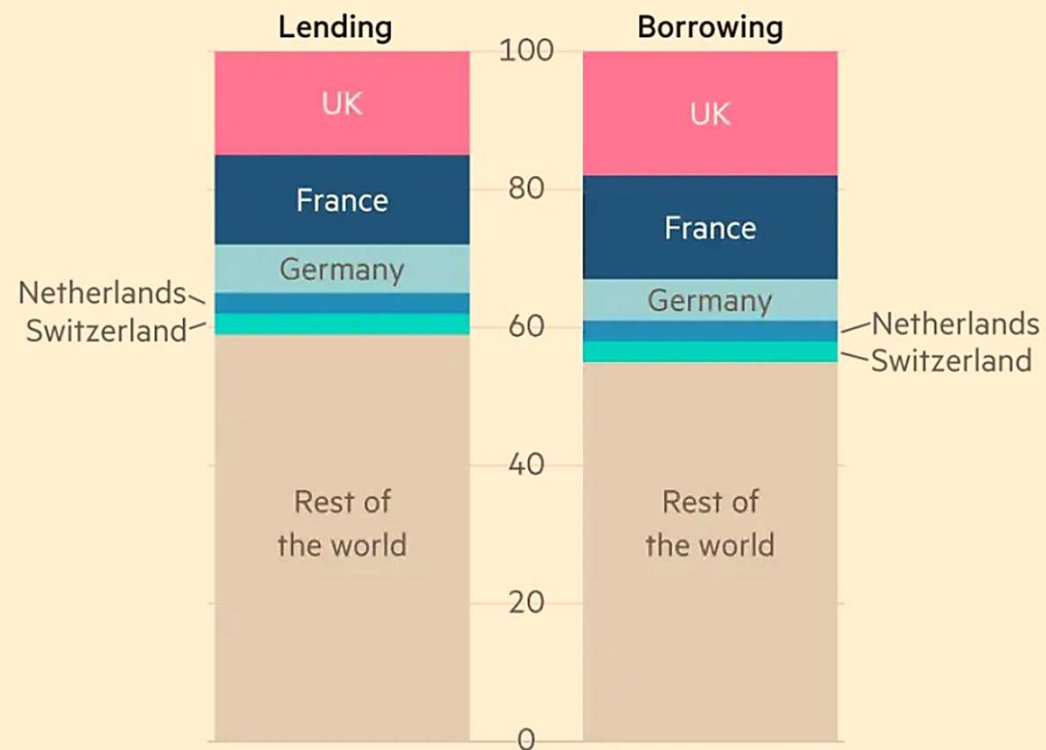
Source: European Capital Markets Institute, Osttra

# BREXIT Lesson 2

Money is not stupid ... continued

## London leads in international bank lending and borrowing

% of global market share, Q4 2020



Source: TheCityUK  
© FT



# UK without EU – limit to the sky?

---

## Financial services



UK FCA launched an avalanche of [consultations](#) in 2021, including on:

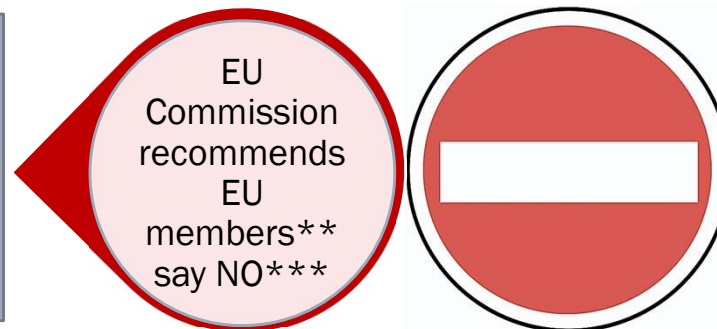
- Primary market effectiveness
- “UK MIFID”-rules on conduct and organisational aspects
- “Consumer Duty (protection)” concept
- Marketing rules for high risk products
- Climate disclosure in asset management and insurance
- New technical standards “UK PRIIPs” (introduction What-If scenarios)

# EU | UK – the Lugano incident

B  
R  
E  
X  
I  
T



UK joining **Lugano Convention\***  
would restore EU-27/UK recognition



\*\*\* In the absence of a conclusion of EU member states to date indicating otherwise, the UK's bid for re-entry into the Lugano Convention has not been granted.

\*1988/2007 treaty between EU-CH,N,ICE

\*\*CH,N,ICE agreed in 2020 and 2021 to UK bid for re-entering convention

# Losing touch?

---

United States 

Minimum rapprochement  
post-Trump (US-EU June  
summit)

TTIP not resumed, hardened  
positions persist

Global significance of EU-US  
ties may force cooperation  
(including ESG policy)

United Kingdom 

Trade relations on post-Brexit  
minimum terms, services  
excluded

Willingness to engage with  
EU unclear

Hardened positions persist

Switzerland 

**26 MAY – exited negotiations**

Current ‘bilateral’ treaty  
framework still in force

Negotiations on new  
framework abandoned

Uptake unclear

Hardened positions persist

# EU and outside markets

---



No equivalence decision framework

Equivalence as trade weapon

Financial services: Focus on “risk containment”/ minimizing “overreliance on non-EU operators” (= pulling crucial sector infrastructure into the EU internal market)

“Single markets – single strategy” likely approach to persist

Most recent - prolongation of UK clearing and settlement equivalence (CCP operation) until 2025 announced by EU COM

# Issues to team up on though abound.

---



COVID pandemic / public health response

COVID monetary (relief) impact management (central banks)

**Green/sustainable transformation** of industry and society, including

- ESG taxonomy ... next dimensions
- Data reporting of NFC and financial institutions
- Prudential standards for sustainable exposure on financial institutions balance sheets

**Crypto-asset markets** screening, infrastructure building and ... market interventions

# A look at the Internal Market

---

ESG, RETAIL FINANCE, DIGITAL ASSETS



# Commissioner McGuinness - Political priorities

---



*"We have not reached our destination yet."*

*Mairead Mc Guinness on sustainable finance regulation, 24 January 2022*



# Green Finance | ESG

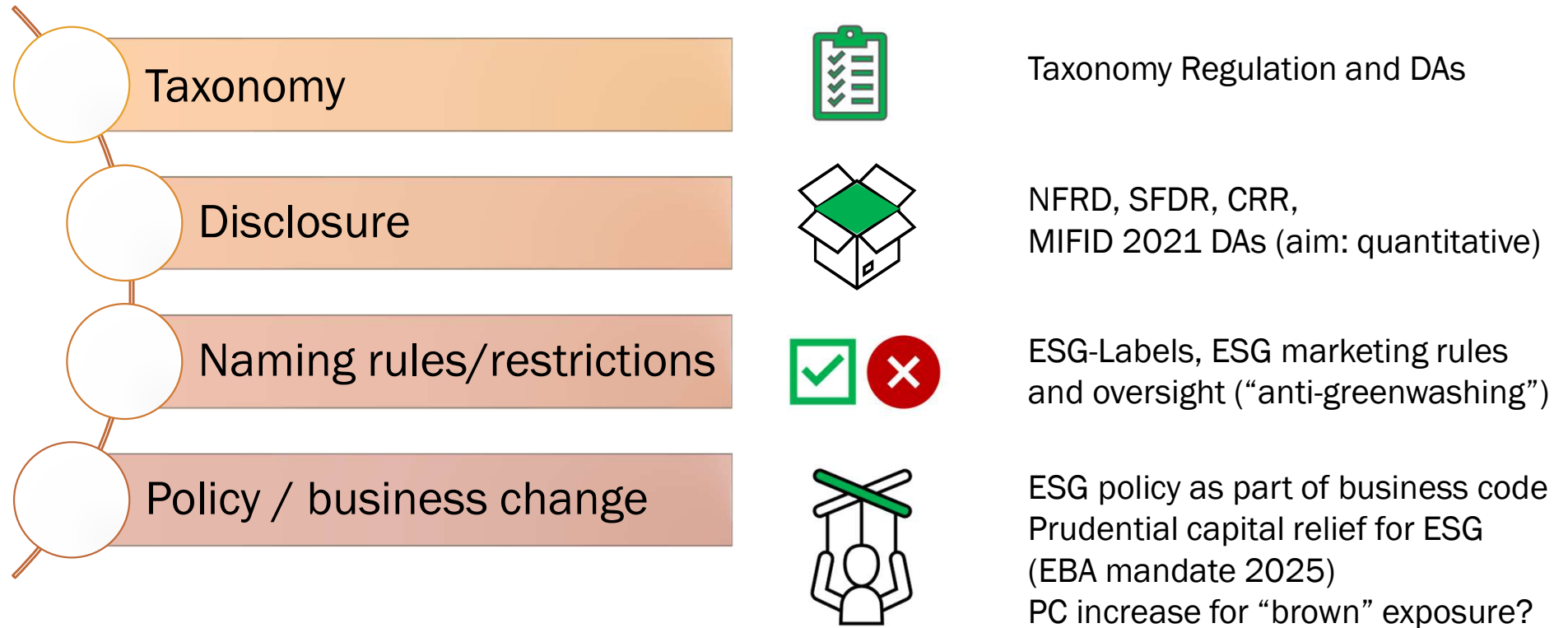
---

A high speed train on old tracks.



# ESG Regulation – from transparency to behaviour

---



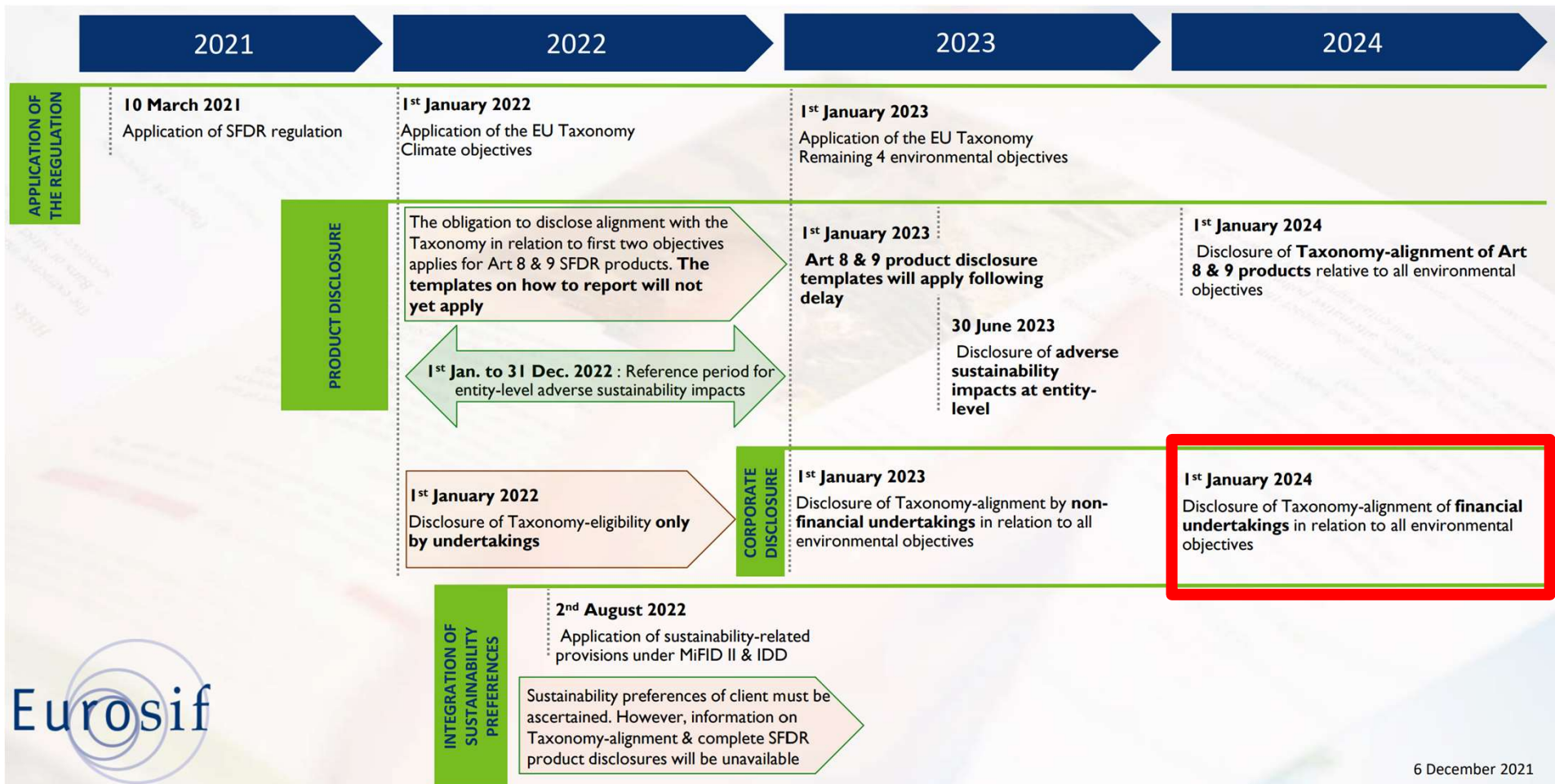
# European ESG labels (2021)

Study, Quontigo, Jan 2022

	Screen: norms-based	Screen: controversial weapons	Screen: conventional weapons	Screen: military equipment	Screen: tobacco	Screen: nuclear power	Screen: thermal coal	Screen: unconventional oil & gas	Screen: oil & gas	Screen: power generation	Screen: other	Portfolio construction: ESG integration	Portfolio construction: best-in-class	Portfolio construction: thematic	Portfolio construction: impact
EU PAB	Yes	Yes	NA	NA	NA	NA	Yes	NA	Yes	Yes	NA	NA	Yes	NA	NA
EU CTB	Yes	Yes	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	Yes	NA	NA
EU Ecolabel*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	NA	NA	Yes	Yes
FNG-Label	Yes	Yes	Yes	NA	NA	Yes	Yes	Yes	NA	NA	NA	NA	Yes	Yes	NA
Verbändekonzept*	Yes	Yes	NA	Yes	Yes	NA	Yes	NA	NA	NA	NA	Yes	Yes	NA	Yes
Ecolabel UZ 49	Yes	Yes	Yes	NA	NA	Yes	Yes	NA	Yes	Yes	Yes	NA	NA	NA	NA
<b>Towards Sustainability</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SRI Label	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	Yes	NA	NA
AMF Doctrine	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	Yes	NA	NA
Greenfin Label	NA	NA	NA	NA	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	NA	Yes	NA
LuxFLAG ESG Label	Yes	Yes	NA	NA	Yes	Yes	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nordic Swan Ecolabel	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes	Yes	NA	NA	NA	NA	NA

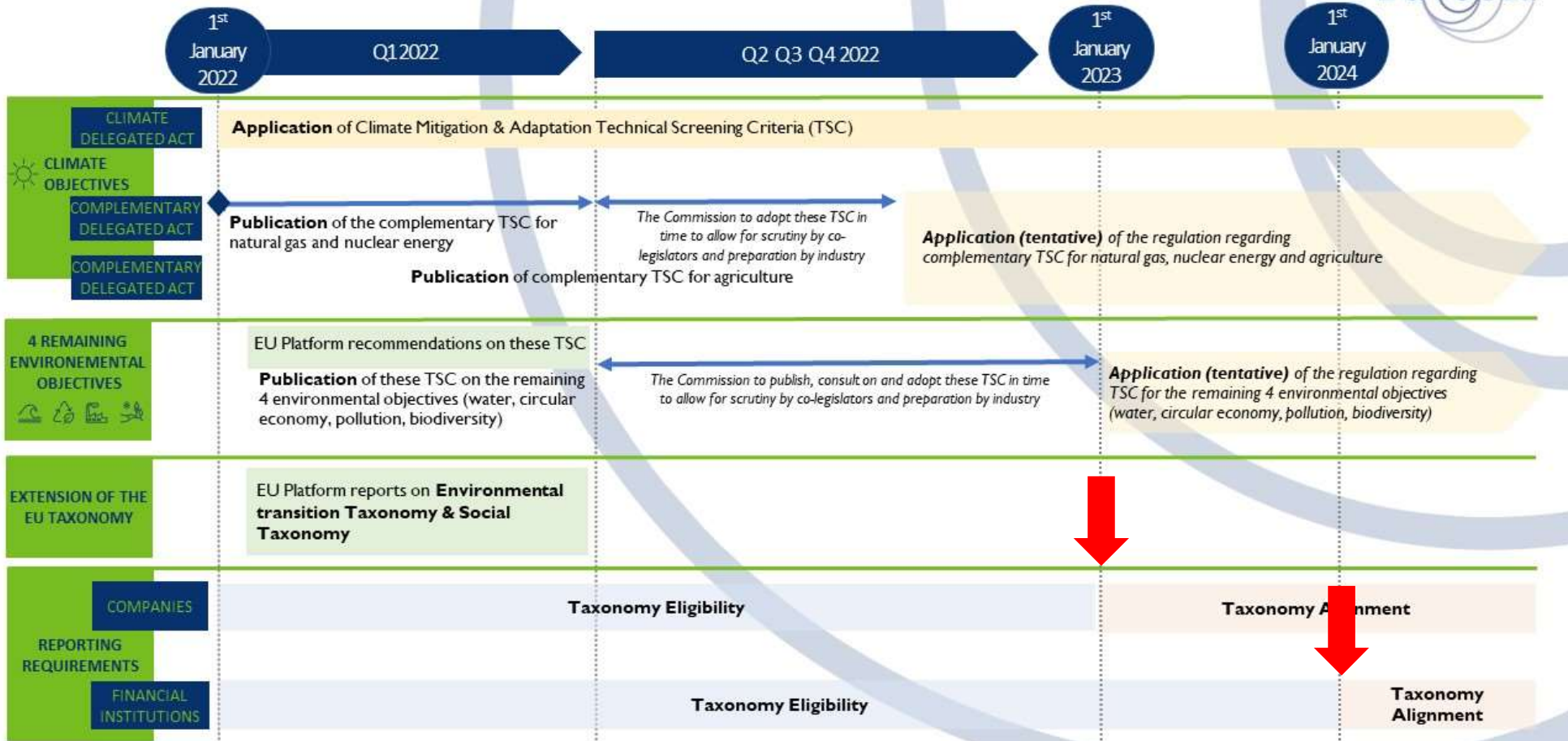
\* Labels under development

# ESG - 2022 will get messy.



6 December 2021

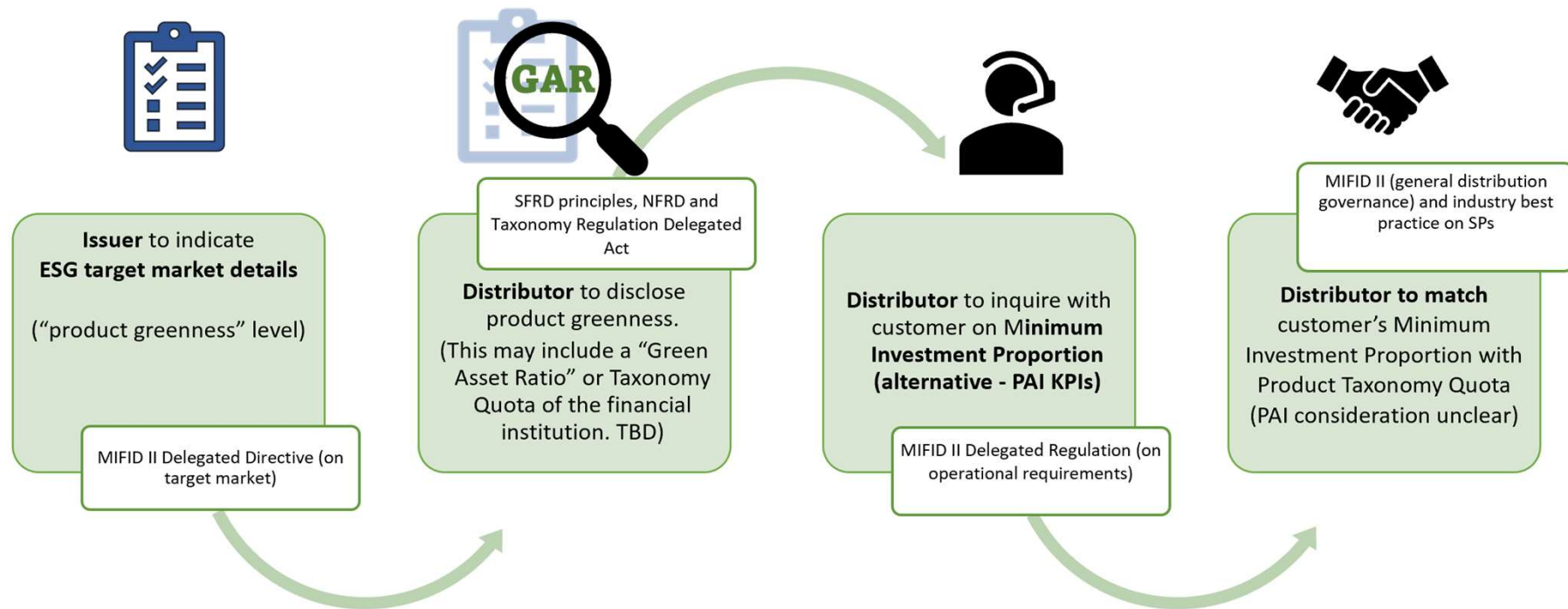
# Milestones of the EU Taxonomy



\* Activities/sectors are eligible if covered by the EU Taxonomy. They are aligned if they demonstrate a Significant Contribution (SC), comply with the Do No Significant Harm (DNSH) principle and the sector-specific Technical Screening Criteria (TSC).



# ESG for retail - from qualitative to quantitative.



Distribution of ESG financial products (SPs) to retail investors under EU MIFID Delegated Acts to come into force in 2022.

# A step back

---

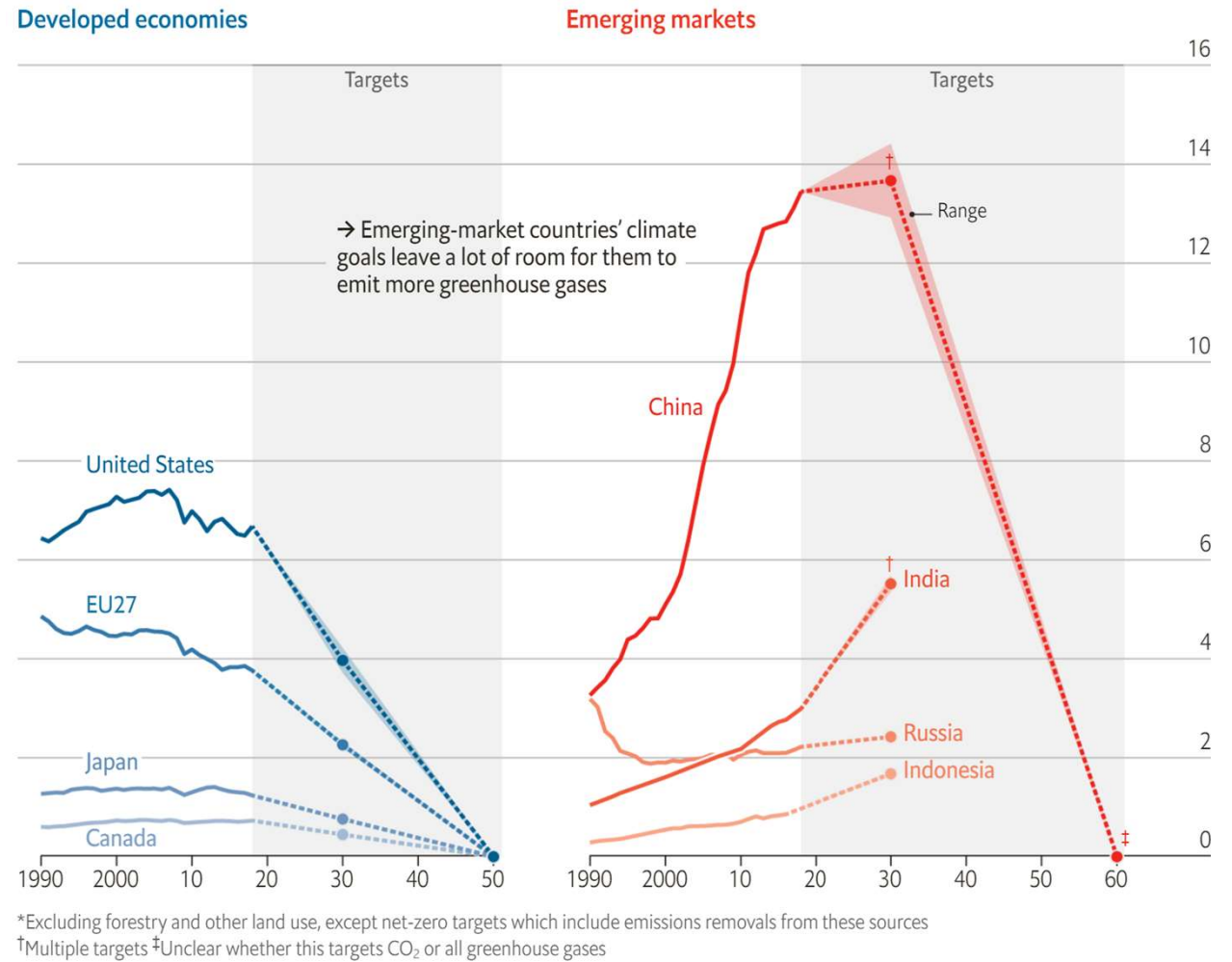
The EU taxonomy will change  
business practice – but (when) will it  
lead to a better climate?

# Dimming the lights?

Greenhouse gas emissions and targets - developed economies vs emerging markets

Source: The Economist, 2021

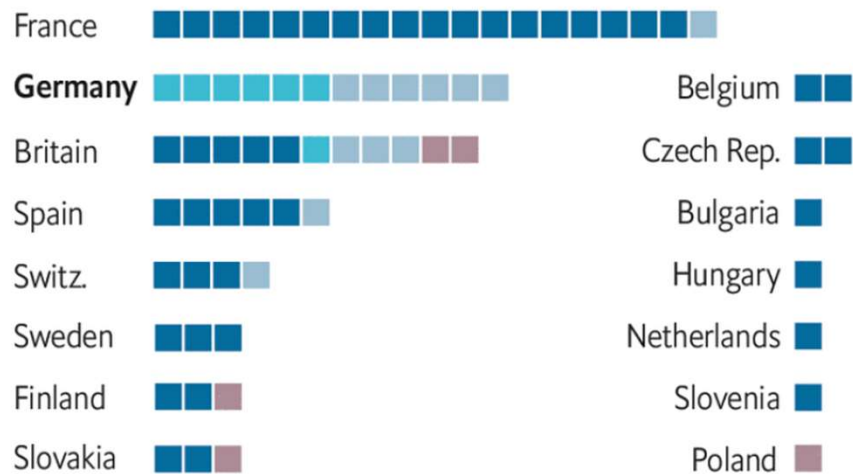
Greenhouse-gas emissions\*, tonnes of CO<sub>2</sub> equivalent, bn  
Four largest emitters in each group



## Nuclear options

Europe, selected countries, nuclear power stations, 2021

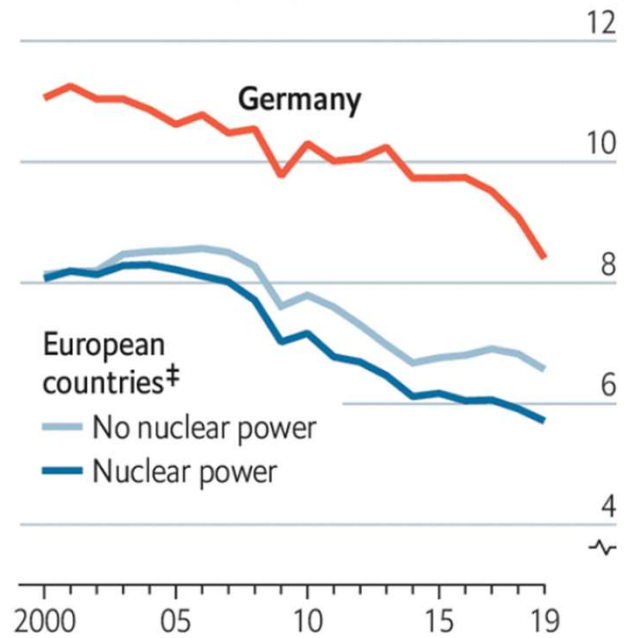
Operational Closing soon\* Closed† Planned



\*Within five years †In the last ten years ‡EU single market + Britain. Excl. Germany  
Sources: Global Power Plant Database; Our World In Data

The Economist

CO<sub>2</sub> emissions per person, tonnes





# Digital Finance

---

Beyond cryptocurrencies.

# Digital Finance



Selected initiatives and projects	What is it about	Timeline
<b>MiCA (regulation)</b>	EU Regulation / Markets in Crypto-Assets (setting CA market framework conditions, incl. operating requirements for CA service providers, in scope: services and firms insofar as not covered by MIFID)	Proposal EU COM (Oct 20) PARL ECON Draft Report (Feb 21) Council Position (21 Nov 2021) Trilogue to start 2022
<b>DLT (Distributed Ledger Technology) pilot regime</b>	EU Regulation / timewise limited (max 6 years) operating license for running DLT (blockchain-)based trading and clearing & settlement infrastructures for crypto- and non-crypto-assets	Political agreement Nov 2021 Enforcement Q2 2022 (expected) ESMA Call for Evidence (ongoing)
<b>DORA</b>	EU Regulation / bundled and levelled ruleset for IT requirements in financial services in order to have the same level of data and operational security for activities/services with a comparable cyber risk	Proposal EU COM (Oct 20) Trilogue EP Council (started in Dec 2021)

# Selected trends

---



Blockchain/DLT increasingly looked at as payment infrastructure alternative (“programmable money” to be used by in a B2B context)

“Private” (closed-user group) DLT systems grow in numbers - may result in different regulation than “open blockchains”

ESG debate to enter Crypto-Asset world with intervention/regulation linked to energy-intensity of use (Bitcoin mining)

Crypto-Asset marketing restrictions as for retail advertising of crypto-asset investment gains traction (focus on “MIFID equivalent” treatment)

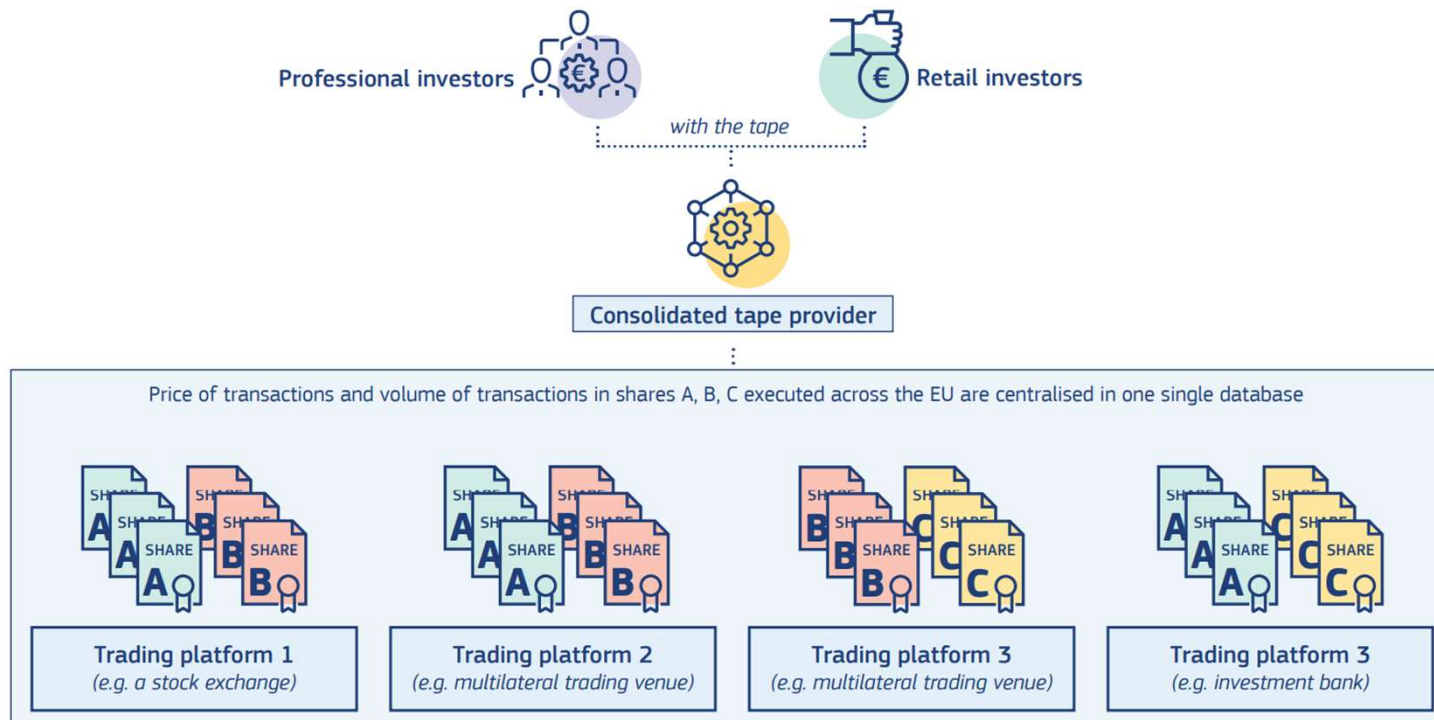
CBDCs – while slow on real-life use, central banks remain active to indicate presence and knowledge

# Capital Markets Union

---

Resolving the many issues.

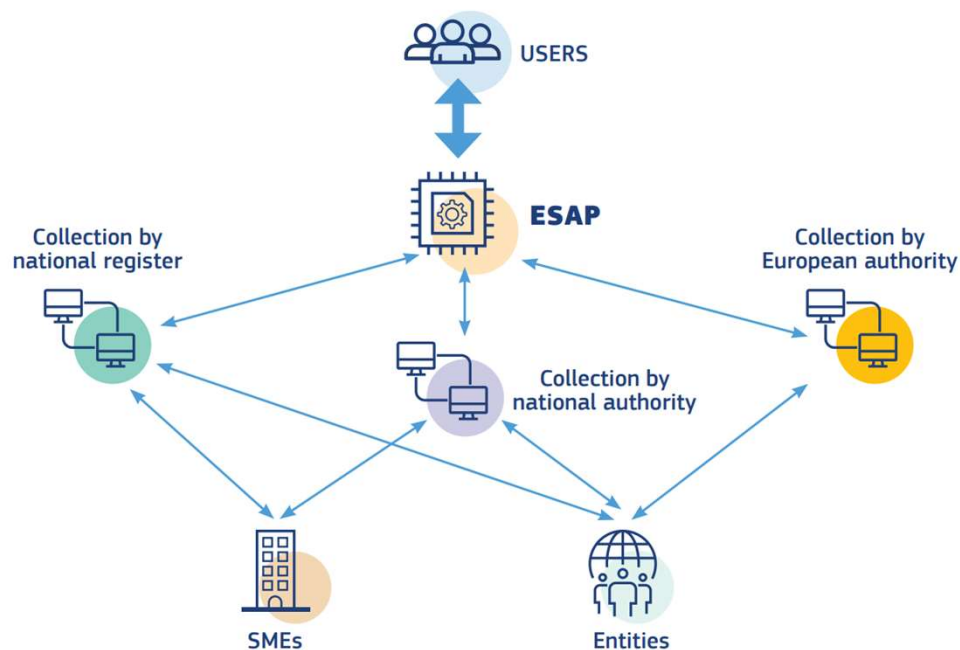
# EU Commission – CMU | proposal 1



Source EU Commission

- Facilitating the emergence of the MIFID Consolidated Tape in four asset streams real-time ‘tapes” (shares, bonds, derivatives, ETFs) in the trading environment
- Proposed along a PFOF prohibition – real impact on capital markets doubtful
- Proposed 25 Nov 2021 as part of the MIFIR update by EU Commission)

# EU Commission – CMU | proposal 2



- Introduction of a **European Single Access Point** for company related information,
- Meant to include ESG information and PRIIPs KIDs
- Regulation proposed 25 Nov 2021 by EU Commission)

Source EU Commission

# EU Commission - CMU | Retail projects

Public consultation on the retail investment strategy closed in August 2021.

Assessing rules in the area of inducements and disclosure and propose legislative changes.

Comprehensive **study** on retail investment to be published in Q1 2022.

Collection of evidence and preparatory work is ongoing.

Assess the feasibility of introducing a pan-EU label for financial advisors.

Report on the **feasibility assessment** to be published in Q1 2022

Collection of evidence and preparatory work is ongoing.

Subject to a positive impact assessment, amending MiFID 2 and IDD to introduce new requirements for advisors.

Action to be further refined in the context of the **retail investment strategy to be adopted** in Q4 2022.

Public consultation on the retail investment strategy closed in August 2021. (**Call for Evidence** ESMA ongoing.)

Amending MiFID II to reduce the administrative burden and information requirements for a subset of retail investors.

Action to be further refined in the context of the **retail investment strategy to be adopted** in Q4 2022.

# Retail Investment Strategy

---

How to prevent a product from being bought by “not-matching” investors?





## Retail distribution-related activities of EU Commission 2021

Retail Investment Strategy (ongoing)  
Consultation finished (EUSIPA responded)

To come:

- MIFID infrastructure part recast
- MIFID consumer protection part recast
- IDD recast
- PRIIPs level 1 recast

Separate: PRIIPs RTS Vs2

# FINDATEX

---

It's all about getting back in touch.

EMT

EET

EPT

SVT ...

## The European ESG Template Working Group (EET)

Working mandate approved by members in 2021

Aim: standardising ESG reporting requirements for data flow between issuers and distributors

**Step 1:** Mapping out of ESG data reporting requirements and templates across various EU regulatory rulesets (MIFID, IDD, SFDR, ECOLABEL etc)

**Step 2:** ensuring coherence of evolving template input definitions in line with regulatory progress



---

Thanks for listening.  
Questions / comments?

**Disclaimer:** Any views presented in this presentation are the personal ones of the author and not meant to constitute investment advice or to advertise or promote, outside a specific investment advisory context, single or a group of financial instruments or underlying reference assets.