

**Reply to supplementary questions addressed by ECON to Commissioner-designate Hill**

***1. What is your vision of a well-regulated and integrated Capital Markets Union: How do you define the concept, what are its features and what are in your opinion the three most important elements to achieve a Capital Markets Union?***

My vision is to put in place by 2019 – as announced in the Political Guidelines of the President-elect and as further detailed in my mission letter – the building blocks for an integrated, well-regulated, transparent and liquid Capital Markets Union for all 28 Member States which:

- provides investors with a high degree of protection and confidence, so that they have the incentives to invest in the future of our economy;
- attracts investment from all over the world because we will have implemented the highest standards of market integrity and efficiency; and
- encourages the free flow of capital to where it is most needed and most productive, while reinforcing the resilience of the EU financial system as a whole.

These key features of a successful Capital Markets Union will need to be built on strong foundations – that means first completing and implementing the financial regulatory reforms begun by Vice-President Barnier, in order to achieve a single rule-book for capital markets which removes existing barriers within the Single Market and is effectively and consistently supervised and enforced. ESMA therefore has an important role to play, building on its significant contribution in developing the necessary implementing measures, fostering greater supervisory convergence and exercising certain direct supervisory powers where necessary, within the limits of the EU Treaties.

We need to act now. The case for building a Capital Markets Union is very clear if we want to rekindle growth, create new jobs and build a dynamic, diversified and resilient market for the future. On the one hand, our stock markets, equity markets and venture capital markets are substantially under-developed when compared with comparable economies. On the other, SMEs in parts of the European Union which suffer most from the crisis and the fragmentation of markets cannot currently access enough funding to grow their businesses.

Developing market financing does not mean reducing bank financing – indeed there is scope to increase it. It means expanding and diversifying the funding available for growth and jobs.

Building on these foundations, my priority would be to achieve the following three objectives:

1. create a single market for European financial instruments to help foster funding for SMEs and long term projects (such as securitisation, private placement, covered bonds, personal pensions, green bonds or European Long Term Investment Funds) and facilitate SMEs' direct access to capital markets;
2. deepen the single rulebook where necessary and possible, such as in company, securities and insolvency laws, and tackle barriers in other cross-cutting areas such as taxation; and
3. make full use of the current supervisory framework to improve supervisory convergence, provide investor protection and ensure greater transparency and centralisation of information needed for supervision.

But before coming forward with a detailed action plan in the course of 2015, I would wish to involve my colleagues in the College, in particular as there are issues here which are not in my own portfolio, and seek the views of this Committee and those of Member States, on the basis of a thorough economic analysis of the barriers and the available options to tackle them. We should carry-out a wide consultation of all interested parties by early 2015.

***2. What are the main barriers to creating a Capital Markets Union? What specifically needs to be done for these barriers to be removed? Which ones will you be giving priority and why?***

As I said in the hearing, some of the barriers to an integrated capital market which drives investment to SMEs and long-term projects are already known, but others remain to be identified. So building a Capital Markets Union will require a thorough

economic analysis of these barriers. The work of the Commission services will need to be complemented by a wide consultation.

Pending this in depth analysis, the main barriers to creating a Capital Markets Union would appear to include:

- the lack of standardisation and underdevelopment of high quality securitisation;
- the underdevelopment of private placement, the sale of securities to selected investors, on a European scale;
- a marked home bias in equity which holds back the size and depth of capital markets and impedes equal access to finance in the EU. Similarly, cross-border shareholdings of corporate debt remain low and the venture capital market and the private equity sector remain fragmented and underdeveloped;
- underdeveloped occupational and personal pension funds and personal savings in the EU;
- obstacles to the cross-border use of collateral in markets; and
- the lack of comparable and reliable cross-border credit information on SMEs.

Outside my own portfolio, barriers would appear to include:

- tax incentives are designed in a way that do not favour capital market financing; and
- the existence of 28 different company law and corporate governance rule books in Europe, despite some level of harmonisation for listed companies.

My priorities for early action will be to tackle those barriers where the problem is clear and well-defined, and the solution is readily apparent, for example:

- developing standards for high quality securitisation;
- ensuring common and reliable standards for cross-border credit information on SMEs; and
- facilitating the development of a European market for private placement.

This may need to take the form where need be of new EU legislation.

***3. If securitisation is to be revived, please outline your view of how it can be made safe and how it will lead to growth and jobs.***

A broad consensus has emerged on the benefits that securitisation instruments may bring, without forgetting the lessons of the past. In its resolution of February 2014 on the long-term financing of the European economy, the European Parliament called for “the development of an overall regulatory framework and a definition of ‘high-quality securitisation’ considering that high-quality securitisation can play a useful role in financial intermediation of both long- and short-term assets and be beneficial for small and medium-sized borrowers”. This will be an important element of the Capital Markets Union project.

If sufficient safeguards are in place, securitisation acts as an important funding instrument for the economy. A safe securitisation market is a simple, transparent market where investors can be confident that the risks they take are disclosed and understandable. Simple to understand in terms of what assets are included and how they are packaged. Transparent so that investors have access to publicly disclosed regular information and can conduct comprehensive and well-informed credit assessments; and issuers should retain a significant exposure to the products they put on the market, so that they are strongly incentivised to keep these products safe.

Safe securitisation markets can enable banks and non-banks to refinance loans/assets by pooling them and converting them into securities that are liquid, tradable and attractive to institutional investors in terms of rate of return and stability of revenue streams. In this way, institutional investors have access to safe financial products providing them with the stable long term returns they need while banks can free up capacity for new lending. Altogether, the development of High Quality Securitisation has the potential to increase both bank and non-bank funding of the economy.

Let me stress one particular point: the intention is not to undo what has been put in place by the recent financial reforms in Europe. The door should remain closed to complex, opaque and risky instruments such as subprime instruments. The intention is to help develop a wider investor base for these products while ensuring appropriate safeguards for financial stability.

This is a complex area, and I wish to continue to reflect further with my colleagues in the Commission, with you and with Member States, regarding the best possible way forward. The case for an EU regulatory framework for High Quality Securitisation based on the three principles outlined above seems strong. One of my first priorities would be to launch preparatory work to assess the impact of such an initiative.

***4. What legislation can be adapted or introduced to support the further development and diversification of capital markets? How would this lead to SMEs gaining better access to long term funding via capital markets?***

First, we should start from what already exists or has been recently decided, but has either not yet been implemented or has not realised its full potential. A lot has already been done to support the development and diversification of capital markets:

- MIFID 2 will ensure a single rulebook for trading in securities, notably by imposing a shift of trading of financial instruments onto properly regulated and transparent venues, bringing greater transparency, more competition in trading and clearing and a high level of investor protection.
- The Market Abuse Regulation and Directive will mean common rules for ensuring the integrity of financial markets, and a better detection and sanction of insider dealing and market manipulation.
- EMIR introduces common rules for clearing, to increase the safety and transparency of OTC derivative markets and implement our G20 commitments to report and clear OTC derivative trades, subjecting non-cleared trades to higher capital requirements.
- AIFMD sets out a common framework for alternative investment funds such as hedge funds and private equity firms, to ensure they are managed soundly and do not create risks in the financial system.
- European Venture Capital Funds (EUVECA) have been recently established to make it easier for start-up companies to attract more investment from across the EU.
- European Social Entrepreneurship Funds (EUSEF) are designed to attract investments to social businesses which are often innovative and make an

important contribution to social cohesion, employment and responsible investment.

- The EU has reinforced the regulatory framework on credit rating agencies, with provisions allowing better comparison of credit-worthiness. This will allow better use by more investors of ratings provided by more rating agencies and scoring agencies, thus enlarging significantly the number of firms that can be scored under a common scale.
- The EU also introduced a central point of entry for information on listed firms through the Transparency Directive. This contributes to reduce asymmetries of information and should encourage cross-border investments.

A lot has been done, and the crucial work of implementation is ahead of us. In this work I will ensure that in all implementing and delegated (Level 2) measures to be adopted, wherever possible, our approach should aim to increase SME access to finance.

Above and beyond that, there are several areas where further work is warranted in particular to allow SMEs to gain better access to capital markets.

- The forthcoming delegated act on the SMEs' growth markets needs to create a group of equity and bond markets dedicated to SMEs. The benefits would include: attracting investors, facilitating the emergence of specialised intermediaries, improving quality of information, and allowing better cross-border investment, while keeping the link between local markets and SMEs.
- The Prospectus Directive already includes a proportionate disclosure system for smaller issuers. A review should be an opportunity for further simplification and harmonisation of the essential requirements. This would benefit SMEs' access to markets.
- A rapid adoption of the ELTIF proposal would provide a potentially very useful tool both in terms of channelling funds to long-term investments like infrastructure and to SMEs, and of providing a common regulatory product for the EU market, attractive in terms of size, scale and simplicity.

- A framework for simple and transparent high quality securitisation would help to bridge bank lending and capital market financing.
- An EU framework for credit registers which would favour the emergence of standardised market instruments and remove an important barrier to cross-border investment. This should be particularly beneficial for SMEs, who use national accounts and do not have access to credit ratings.

**5. What recommendations would you suggest with regards to digital currencies like bitcoin?**

Bitcoin (\$9Bn market capitalisation) is only one of more than 200 different virtual currencies (VCs) that exist. In considering their development, there is a balance to be found between safety and innovation.

Although VCs can often bring faster and cheaper means of payments than traditional bank transfers they are not regulated or subject to security, safeguarding, or capital requirements like other payment services providers which obviously leads to prudential risks.

As this is an area which falls within the responsibilities of the new DG Finance, I will ensure that the developments of VC markets are kept under close scrutiny, with a view to early identification of potential emerging risks. If such risks are identified, I am ready to discuss quickly with this House what needs to be done in terms of better protecting users – as in fact was done for payment services. The Commission participated actively in the discussions of the Task Force on VCs led by the European Banking Authority. The main risks identified were money laundering and financial crime. This resulted in an Opinion of the EBA that recommended that EU legislators consider declaring market participants at the direct interface between conventional and VCs, such as virtual currency exchange platforms, to become ‘obliged entities’ under the EU Anti Money Laundering Directive and thus subject to its anti-money laundering and counter terrorist financing requirements.”

Since Trilogue negotiations on the 4th AML Directive are due to start in October, and I understand this issue will be discussed then, I would – if confirmed – discuss this

with Commissioner designate Věra Jourová, who would be in charge of this issue. One possibility would be to propose to include Virtual Currency Exchange Platforms as “obliged entities”, and thereby subject to the customer due diligence requirements in the Directive. This would send a clear signal to Member States and encourage common solutions at EU level.

***6. What is your opinion on high frequency trading in general and its compatibility with the need to stimulate long term financing?***

My understanding is that High Frequency Trading (HFT) may cause systemic risks, such as flash crashes, and may undermine investors’ confidence that markets are fair, safe and efficient. And without confidence, they will not invest. On the other hand, HFT can provide important liquidity to the market. While such liquidity might be seen as artificial, withdrawing it could also have potential systemic implications.

The co-legislators addressed these concerns in a rigorous though balanced way in the recent review of the Markets in Financial Instruments Directive (MIFID 2).

MIFID 2 introduces a comprehensive set of measures to address the risks that High Frequency Trading poses such as the requirement for high frequency traders continuously to provide liquidity, and requirements to ensure that this activity is adequately supervised and regulated. These include a number of useful rules that were proposed by the European Parliament during the negotiations under the ordinary legislative procedure that specifically seek to rebalance financial markets so that they favour long term investors over ultra-short term HFT profit seekers.

I support this approach and the underlying technical implementing measures now under discussion in the European Securities Markets Authority will have to give full effect to the letter and intention of this legislation. Regulators must then ensure that it is well implemented. Long term financing is critical to ensuring long term growth in the Union. It will be one of my priorities to remove any unnecessary barriers to long term financing.

***7. The Chair of the European Banking Authority indicated that certain banks might not pass the on-going stress tests. Should this happen, what action would you take?***



Following the economic and financial crises, banks have become considerably more robust. Since 2007, EU banks have increased their highest quality capital by more than half a trillion EUR.

The ongoing stress test of the most significant banks in the EU carried out by the respective competent supervisory authorities and coordinated by the European Banking Authority is a vital supervisory tool to identify and address any remaining vulnerabilities in the EU banking sector. Only by successfully completing this process will we fully restore confidence in European banks and get credit flowing to the economy.

In the Banking Union, the stress test is combined with the in-depth asset quality review. The purpose is to make sure that the ECB as the new Single Supervisor has a full picture of the banks it will supervise.

If the exercise identifies capital shortfalls, banks will need to recapitalise or will have to be resolved. The relevant competent authorities will be in charge of determining and taking any supervisory action needed. In the banking union, capital shortfalls identified will need to be covered within 6-9 months, starting from the release of the results in the second half of October. The concerned banks will have two weeks following the publication of the results to submit the respective recapitalisation plans. Capital will have to be raised in the market. If Member States provide aid, the Commission will – with Ms Vestager in the lead – apply the existing rules as set out in the state aid guidelines for banks of August 2013.

The new EU rules on resolution applicable next year will considerably strengthen our ability to deal with banks in difficulty in future. We will use every possibility under this framework to minimise the impact of bank failures on taxpayers.

***8. Could you provide details on how you see the distribution of responsibilities between yourself and Commissioners-designate Moscovici and Katainen in respect of issues in ECON's field of competence, as well as the distribution of responsibilities between yourself, Commissioners-designate Moscovici and Dombrovskis, particularly with regard to the external representation of matters concerning the euro area?***

I recognize and understand the wish of this Committee to understand lines of responsibility within the new structure of the College. I refer you to the letter sent by

President-elect Juncker to President Schulz which sets out how the new arrangements will work both in general, and also gives a number of indications as to how things will work in practice in areas of ECON Committee responsibility.

I believe that the new approach advocated by President elect Juncker is the right one, as it makes sense to pool our efforts. The challenges of kickstarting jobs and growth does not fall neatly within the remit of one portfolio, but is a horizontal objective for the whole Commission and for all Commissioners.

As indicated in my opening statement for the hearing, one of the main reasons I want the job of Commissioner is to help restore jobs and growth to Europe's economy. The global financial crisis has taken an enormous toll on our citizens. It is the responsibility of the Commission, working together with the European Parliament and the Member States to design and implement an economic policy which promotes sustainable growth and employment creation across Europe.

If confirmed as Commissioner, I am very much looking forward to working with all my colleagues in the College and particularly Pierre Moscovici, Jyrki Katainen and Valdis Dombrovskis with whom I will share responsibility for delivering some of our key objectives. I believe that the Commissioner for Financial Stability, Financial Services and Capital Markets Union can make an important contribution to growth and jobs by ensuring that Europe's financial sector is regulated in a manner that safeguards stability while facilitating the necessary flow of credit and capital to the rest of the economy. On these matters, I would be directly responsible within the Commission. However, financial-sector policy cannot be implemented in isolation from the other strands of economic policy which focus on sound public finances, robust competitiveness and strong productivity. Inevitably, therefore, I will need to work very closely with Pierre Moscovici so as to ensure that our policy proposals are consistent and mutually reinforcing. In this regard also, Pierre Moscovici and I can expect input from Jyrki Katainen who will provide a perspective across both of our portfolios. I expect all three of us to work very closely on the Investment Plan announced by President-Elect Juncker.

I will work very closely with Valdis Dombrovskis and Pierre Moscovici on all issues relating to Banking Union and I will pay particular attention to the positions taken by Valdis Dombrovskis as Vice-President for the Euro. We will also work together on matters relating to economic surveillance, notably the EU Semester and country-specific analysis including for so-called programme countries. Under the coordination

of Valdis Dombrovskis, we will decide which of us is best placed to represent the Commission in those fora where various aspects of euro-area economic policy and financial stability matters may be discussed. I think we all share the view that these arrangements need to be applied consistently as far as possible so that this Committee gets a clear sense of lines of responsibility. It is also essential if the Commission is to create good working relationships with global partners.

***9. Taking into account the previous commitments of the Commission, are you in favour of a Single EU Deposit Guarantee Scheme? Will you make a legislative proposal to that effect, and if so when?***

The Directive on Deposit Guarantee Schemes adopted in April harmonises the financing, the time of disbursement, the triggering rules and other important features of the DGS in all Member States. This means that we will have a network of DGS that all follow the same rules. It ensures that in the case of a bank failure people get their money back faster than before and banks will cover the costs of their failures. Everywhere in the Union deposits of up to €100,000 are guaranteed for both ordinary savers and businesses. I understand the issue of a pan-European DGS was debated at length in the context of the Banking Union. Instead of a single DGS, the co-legislators opted for a harmonised law to regulate the roughly 40 DGS existing in Europe. The Commission has clearly signalled that a Single DGS within the Banking Union would be desirable. However, we must recognise that the political conditions for such a change do not appear to be met. That is why my predecessor went down the harmonisation route to insist on harmonised national DGSs, so that adequately pre-funded DGSs are set up in each Member State. Once these are in place, the political conditions might be more favourable to discussing how to merge them into a single DGS within the Banking Union.

Under Article 19(.5) of the recently adopted DGS Directive: "By 3 July 2019, the Commission shall issue a report, and, if appropriate, a legislative proposal to the European parliament and the Council setting out how DGSs operating in the Union may cooperate through a European scheme to prevent risks arising from cross-border activities and protect deposits from such risks." I propose that we monitor carefully how the recent DGS Directive is working on the ground and I will certainly be willing to consider alternatives. As the existing Commission has previously stated, a single DGS should remain our objective in the medium term.

**10. Can you make a clear commitment that when legislating for the EU28 you will guarantee the integrity of the single market and neither propose nor support to introduce double majority voting applicable to euro area and non-euro area Member States such as in EBA?**

I can make a clear commitment that I will guarantee the integrity of the single market. The introduction of double majority voting applicable to euro-zone and non-euro zone Member States such as in EBA which of course occurred under the current Commission was a specific response to a specific issue. I do not believe the specific circumstances which existed at the time on this issue and which were felt by the negotiators to justify taking such extraordinary measures exist elsewhere.

I agree that such rules are not desirable in a well-functioning single market where trust prevails among Member States. They proved to be unavoidable in the case of EBA, which is indeed why the Parliament – presumably – agreed despite its concerns. I will work with you to ensure that they will not be needed again.

But in this particular instance Parliament approved this legislation and it is now law. It includes a specific review mechanism, with a number of reporting requirements: a) when the number of non-participating Member States reaches four; b) by 2015 in any case on the composition of the Management Board and the independent panels for mediation purposes.

Of course it would be inappropriate for me to prejudge the outcome of these reviews. But, and to quote from the article [Art 2 of amending Regulation 1022/2013], "The report shall take into account in particular any developments in the number of participating Member States and shall examine whether in light of such developments any further adjustments of those provisions are necessary to ensure that EBA decisions are taken in the interest of maintaining and strengthening the internal market for financial services."

In summary, I favour simple voting arrangements and pledge to uphold the integrity of the EU's single market at all times.

***11. How do you intend to deal with discrepancies between EU and other important jurisdictions, notably USA? Which approach do you intend to take on third-country equivalence decisions? How do you plan to involve the European Parliament in third-country related matters?***

We should not overlook the progress achieved since the onset of the crisis in terms of international cooperation. Thanks to the G20 and the FSB in particular, we have seen significant regulatory convergence in key areas of the financial sector. It will be a priority for me to pursue and deepen cooperation with our main international partners both at multilateral and bilateral levels. The main target should be to eliminate the most problematic discrepancies in our rules (or how they are implemented in the main financial centres) which can increase costs, fragment markets, or create new risks for financial stability. It would be a huge step back if our internationally agreed objective of building a stable and resilient global financial system were undermined by diverging detailed rules or implementation.

International co-ordination at the level of the G20 and Financial Stability Board, or the Basel Committee, is essential. I recognize that if this work is to include international standard setting, even in the form of non-binding commitments, you will require transparency and accountability. I will therefore provide you with the most detailed information possible and continue to hold exchange of views with you on all relevant subjects tackled internationally. I will, in all international bodies, vigorously defend our interests, including of course avoiding anything that would be detrimental to the EU's financial system or put our companies at a competitive disadvantage. The final say in any case on EU financial services rule-making will always remain for the EU legislator.

At bilateral level, we should review the current bilateral dialogues with key countries and seek to upgrade them to more efficient, result-driven, transparent and accountable regulatory cooperation. Here too, I will want to update the Parliament regularly on the main developments taking place in these dialogues. This particularly applies to enhanced regulatory cooperation with the United States through the Transatlantic Trade and Investment Partnership. We have suggested an EU-US Financial Regulatory Forum which should improve the transparency and accountability of the transatlantic regulatory discussions we have at present.

Of course, all jurisdictions will not come up with identical rules, even when implementing international standards. Nor should EU adopt an extra-territorial approach for its regulations. Hence our concept of equivalence. Most of our financial services legislation agreed in recent years contains provisions on equivalence, allowing for recognition of foreign rules as equivalent to EU rules. We continue to believe this is the way to ensure effective regulation and supervision in an international context. Most, but not all, countries agree with this, for example in the area of cross-border derivatives. We should press ahead with this work, seeking in

particular US agreement to provide deference to the EU where rules reach equivalent outcomes. Equivalence decisions should continue to be based on an extremely thorough technical assessment of third countries' regulatory and supervisory frameworks. We should therefore rely on the input of the European Supervisory Authorities where appropriate and on detailed technical discussions with foreign regulators and supervisors to reach conclusions. Here too, transparency towards the Parliament will be essential. I will be ready to discuss equivalence assessments with the Parliament whenever necessary.

Finally, the case has been made that the equivalence provisions contained in our legislation are overly complex and sometimes inconsistent. I am ready to study this with you to see how things can be improved in this respect.

***12. Will you keep the European Parliament fully informed about the work being done in international bodies such as the FSB, Basel Committee, the IASB, and guarantee that unnecessary and unadapted rules for the EU financial sector are being avoided?***

The work of international bodies is vital in setting principles and standards for the global financial system. The Commission participates as an observer in a number of global financial standards setting bodies such as the Basel Committee. The Commission is a full member in the FSB. Our presence allows us to put forward a collective European Union perspective in these discussions and represent those EU countries (in fact the vast majority) who do not have an individual seat in these international bodies. At the same time, the final say on EU financial services rule-making belongs to the EU legislators. International cooperation is indispensable, but the final decisions on EU rules are taken by the European Parliament and the Council.

Even if the international standards come in the form of non-binding commitments, we must improve the accountability of our dealings with these fora to our legislators. I therefore stand ready to provide the European Parliament regularly with detailed information, which would allow us to have an informed exchange of views on the subjects taken up by the international standards setters.

If we lead by example and augment the accountability of the EU positions in the international bodies, we will be well placed to make the case for strengthening the overall accountability of these international fora.

In my international work, I will vigorously defend the European interest. This includes avoiding rules that would be detrimental to the EU's financial system or which would be crafted in way that would put our companies at competitive disadvantage. The information sharing and exchange of views with the European Parliament (as set out above) will help me in making the case to our international partners.

**13. *What do you think of the proposals on Eurobonds made by the Commission in the Green Paper on the feasibility of introducing Stability Bonds?***

The issue of eurobonds has been discussed intensively in the Committee, in the context of the euro-area sovereign debt crisis. This discussion has been informed by a Report prepared by Mme Sylvie Goulard and by an earlier Green Paper presented by the Commission. More recently, in response to a request from the Committee, the Commission has asked a group of experts to study two variants of common issuance for the euro area, i.e. a sovereign debt redemption fund and euro-bills. These various contributions have confirmed the technical challenges in designing a framework for common issuance that meets the concerns of both proponents and opponents.

Proponents of eurobonds suggest that such mutualisation of risk would protect Member States with significant budgetary imbalances from volatility in sovereign debt markets. Opponents argue that eurobonds would reduce the incentives for those Member States to restore soundness in their public finances and to engage in challenging structural reforms. Reflecting these opposing arguments, views on eurobonds diverge significantly among the euro-area Member States and, I understand, among members of the ECON Committee.

In light of the above, it seems very unlikely that a consensus on issuance of eurobonds can be achieved among the euro-area Member States at this time. In the absence of this consensus, I support what my colleague Pierre Moscovici – who is on the lead on this issue – said in his hearing that this is not the right moment for proposals on the issuance of eurobonds. I intend, however, to follow this matter closely together with Pierre Moscovici and under the guidance of Vice-President Dombrovskis, and in close cooperation with the European Parliament.

**14. *What do you think of the payments legislation and proposals in relation to the 60/90 days for payment?***

As a former small businessman, I know the importance of bills being paid on time. Many payments in commercial transactions are made much later than agreed. Being paid late by customers is always a strain on the finances of any business, particularly for SMEs. I am therefore strongly supportive of the policy approach pursued by the European Union with the Late Payment Directive of 2011.

I note that this issue falls under the future portfolio of my colleague Elżbieta Bieńkowska, and I am sure she will implement it vigorously.

This Directive imposes a requirement on public authorities to pay the goods and services they procure within 30 days (and in certain circumstances 60 days). Of course, it is important to preserve contractual freedom in businesses commercial transactions. In this context, the Directive invites enterprises to pay their invoices within 60 days, unless they expressly agree otherwise and if it is not grossly unfair.

***15. You agreed that the problem of “too-big-to-fail” banks is important and persists. Can you outline how you intend to address it through legislation currently on the table and, potentially, new initiatives? Can you outline what a healthy European banking system looks like?***

Yes, I agree that Too Big To Fail (TBTf) remains a problem. It goes hand in hand with the concept of implicit subsidies, i.e. ultimately use of taxpayers’ money because letting such banks fail may have disastrous consequences. In that sense no bank should be considered in the future as too big to fail.

We have gone a long way towards solving this issue through the reforms undertaken in the EU in the last five years, and thanks to the work of this Committee in particular, to establish a safer, sounder, more transparent and responsible financial system. Large banks are better capitalised, the framework to resolve them in an orderly fashion at the expense of debt holders is in place. The work ongoing in the G20 on Total Loss Absorbing Capacity (TLAC) – which we have agreed to shape in accordance with the approach taken in the Bank Recovery and Resolution Directive – will further enhance their loss absorbing capacity.

Despite these measures, Michel Barnier following the excellent report of Mr Liikanen – felt that the size and complexity of a very small number of very large banks remains an issue of concern. I agree with him.



Some of these banks, whose balance sheet is often larger than the GDP of their home countries, remain too-big-to-fail, too-costly-to-save and might be too-complex-to-resolve. This is particularly the case with the systemic risk created by large banks with significant trading activities. Existing prudential rules and recovery and resolution measures may not be sufficient to address fully the risks that some of these banks pose to financial stability. There is therefore a residual risk arising from those institutions that needs to be addressed.

The proposal made by the current Commission on the structure of banks deals with this issue. It would limit the systemic risk associated with too-big-to-fail banks' trading activities. We need to find a workable solution but I will make it a priority to push for an early agreement on this proposal, working closely with this Committee and Member States – in order to prioritise greater certainty and stability for the industry.

I know there are different viewpoints – some arguing the proposal goes too far, and others not far enough – but I believe that if all sides work constructively, a sensible compromise can be found. Implementing the bank structural reform together with the TLAC requirement and other complementing supervisory measures should effectively tackle the too-big-to-fail problem. However, I will remain vigilant and assess whether further measures are needed. In particular, I will use all the tools at my disposal to make sure that the banking sector is properly protected from risks emanating in the non-banking sectors.

On the question of what a healthy European banking system would look like, it is one that would support growth and benefit EU citizens, companies and society as a whole. It would be a system where taxpayers are no longer exposed to the risk of banks' failures. A system that is solid and stable, without too-big-to-fail, too-costly-to-save or too-complex-to-resolve banks. Finally it would be a system that is responsibly regulated, managed and supervised: a system based on strong ethical standards and sound governance, and a system that EU citizens can trust.

***16. The IMF is warning about an uncontrolled rise of shadow banking activities. You stated a need to be vigilant of the risks such activities entail but also to distinguish economically useful activities of this kind from others. Can you outline how you propose to detect these activities, assess their utility and ensure the application of the principle of “same risks, same rules”? In this regard, what is your***

***opinion about the key provisions regarding the Commission legislative proposal on Money Market Funds?***

I agree with the assessment of the IMF that the challenge for policymakers is to maximise the potential benefits of shadow banking while minimizing systemic risks. That is why during the hearing I underlined the importance I attach to being alert and vigilant to the risks entailed but also being in a position to capitalise on its benefits. This dovetails with what we want to achieve under the Capital Markets Union. My approach regarding shadow banking will consist of helping to deliver transparent and resilient market-based financing while tackling financial risks.

The Commission has already implemented a number of measures to provide a better framework to address shadow banking risks, such as harmonised rules applying to hedge fund activities (AIFMD), strengthening rules for derivatives products (EMIR) or implementing risk retention requirements in securitisation transactions.

The Commission has more recently adopted additional proposals to shed more light on these risks and to bring certain shadow banking activities within the regulatory perimeter. I am committed to seeing rapid agreement on the MMF regulation and the Securities Financing Transactions regulation so they can enter into force as quickly as possible.

I think there is also a need to develop monitoring tools to identify new vulnerabilities in the system as at the moment we lack sufficient and reliable data on Shadow Banking risks. For instance our proposals to increase transparency on some financial transactions (the Commission proposal on Securities Financing Transactions or 'SFT') will help supervisors better to quantify risks inherent in such transactions.

Second, the European Systemic Risk Board is developing risk indicators on shadow banking in the EU to monitor trends and detect potential vulnerabilities emerging in this sector. This will also help supervisors in their work.

Third, the Commission has asked the European Banking Authority to assess the size of financial entities that have bank-like activities and fall outside the scope of European banking prudential regulation. The report is being finalized and should be published in the coming weeks. I look forward to receiving this report and to discussing it with you.

We need to shed more light on what constitutes shadow banking. The work of the ESRB and EBA will be very important in helping to identify shadow banking activities and the risk they may pose.

In terms of assessment, my questions will be (1) what is the risk to financial stability of the activity, the financial instrument, or the entity? (2) What are the risks deriving from the interconnection between regulated activities and shadow banking activities? And (3) how does this activity, instrument or entity contribute to financing the economy?

I will come forward with proposals to strengthen the oversight and regulation of shadow banking if the data shows that there are risks to financial stability. I recognise that it is also important that Shadow Banking should be subject to the principle of same risks, same rules.

So far as MMFs in particular are concerned, the current Commission proposal contains several measures on diversification, the quality of assets or on the liquidity of MMFs that are crucial for all MMFs. That is why I will strive to find an agreement on this proposal as a matter of priority.

Diversification is important. As the Lehman example shows, a single issuer should not account for a large percentage of the MMF portfolio. If a single issuer faces bankruptcy, the overall value of the portfolio is affected. Liquidity is equally important. In case of massive redemption requests, the MMF needs to have short-term assets that mature imminently so that investors can be reimbursed. Finally, the credit quality of an MMF asset is important. MMFs can only hold assets of the highest credit quality to reduce the likelihood of issuer defaults.

The issue of stable value funds is a very sensitive point in the negotiations. I believe that we have to find a solution that preserves the role these funds play in the economy while at the same time ensuring that financial stability is preserved. It would appear to me that the existing Commission made a balanced proposal, notably the fact that constant value MMFs have to be 'backstopped' by capital buffers.

I am convinced that these measures are crucial for all MMFs. I would like to recall my commitment, as outlined to you last week, on seeing the MMF regulation agreed as speedily as possible.

**17. You made several references in your written and oral answers to ECON about the possibility that we “may have got it wrong” in certain aspects of financial markets regulation and their interactions to the detriment of the real economy. Can you provide some examples of areas where this could be the case? Can you outline how you propose to detect such cases?**

In reaction to the financial crisis, the EU fundamentally overhauled the regulatory and supervisory framework of the financial sector in order to bring about a safe and responsible financial sector that contributes to the growth of the real economy. More than 40 legislative proposals have been tabled and are to a large part already in force.

I believe that these reforms were necessary to restore financial stability and market confidence. The general point I was making in the hearing is that given the sheer volume of the new measures, the speed with which actions had to be taken, and the complexity of financial markets, it makes sense to monitor the new framework closely to make sure that we have got the balance of regulation right. Indeed, the outgoing Commission started this process with its Communication "A reformed financial sector" in April 2014. The Communication was accompanied by a staff working document providing a comprehensive and detailed economic assessment of the impact of these reforms, both on a file-by-file basis but also considering interactions between the various measures. The ECON report on the coherence of financial services legislation also provides extremely valuable insights. In addition, review clauses have been introduced in all the major pieces of legislation.

New proposals and implementing measures will follow the principles of smart regulation and be prepared in a transparent manner and accompanied by impact assessments. President Elect Juncker has attached particular importance to this work with the nomination of Mr Timmermans as First Vice-President in charge of Better Regulation amongst other things. And, building on the work done this year, we will further assess the coherence and impact, both in qualitative and quantitative terms, of our regulatory framework and propose adjustments, where needed, to correct for over- and underlaps as well as inconsistencies.

One example of an area where we need to fine-tune our regulation is securitization, which I have referred to elsewhere in these written answers. While it is important not to repeat the mistakes of the past, securitization, when properly framed, can contribute to unlock funds for the financing of the economy and we should encourage the revival of a sound securitization market.

More generally, it might be worthwhile considering taking a more horizontal approach on cross-cutting issues as was done in the area of consumer protection with PRIIPs which will ensure greater investor transparency and protection.

A third area on which we need to keep a close eye are clusters of interconnected legislation. The ECON report mentions for instance MiFID2, IMD2, PRIIPs and the Prospectus Directive and the need to ensure that these pieces of legislation work together without creating unnecessary burden. I fully support this objective and will closely monitor the implementation of these measures and may consider legislative proposals should major issues appear.

**18. You mentioned in your written responses that one of the key features of this parliamentary term will be the renegotiation of the relationship between the UK and EU. As a senior member of the UK government, you will be fully aware of any contentious areas in the financial services portfolio. Could you outline what they are and what strategy you would suggest to deal with potential conflicts between UK and EU objectives?**

I will be under a legal and indeed moral duty, like all Commissioners, to work for the general European interest. I think it is a mistake to think always in terms of potential conflicts. My strategy will be to propose measures for an integrated capital markets union of the 28 Member States which facilitates the flow of responsible and well-regulated finance to the productive economy. I believe that that would be a shared objective of the United Kingdom and all other Member States – as well as this Committee. Our urgent goal of creating growth and jobs is one that should unite us, not divide us.

If confirmed, I will be a European Commissioner, serving the general interest, not any one Member State's interest. I hope I explained this clearly during the hearing. I can also state without ambiguity that I do not have privileged information relating to the UK's financial companies.

I intend to consult widely and listen to the widest possible range of views before taking action. I will always listen particularly carefully to the opinions of this committee. Once again, my strategy will be inclusive and to serve the interests of the European Union as a whole.

**19. You committed yourself to the principle of proportionality. Can you outline measures and proposals you want to put forward in order to ensure that small and low complexity financial actors will not be pushed out of the market because of regulatory burden?**

As President Elect Juncker said in his political guidelines "Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. We must not stifle innovation and competitiveness with too prescriptive and too detailed regulations, notably when it comes to small and medium sized enterprises (SMEs). "

I believe that guiding principle to be the right one – and it means the principle of proportionality should always be at the heart of everything we do.

Regulation imposes costs which may indeed be detrimental to some small financial actors. It is easier for large companies to comply with regulation and indeed to use it to disadvantage new, smaller companies and to restrict competition. The principle of proportionality is a fundamental principle embedded within all the Commission proposals. It is important to minimize costs for smaller players in the market and to promote their participation in the market. Such participation is crucial for a well-functioning modern economy and contributes to economic growth, as SMEs are the backbone of the economy and source of most growth and new jobs.

The impact of regulation on SMEs can be looked at in two ways: to see if rules are proportionate to the size of the actors involved; and to see if the design of the rules allow better access to finance for SMEs.

Concerning proportionality, rules have already been adopted to reduce further the administrative burden on SMEs. There is a smaller reporting burden (thanks to the Transparency Directive) and smaller costs of new issuance with proportionate disclosure requirements (in the Prospectus Directive). We have to ensure that the practical implementation of these rules delivers the desired objectives for SMEs. In reviewing the Prospectus Directive, we should look at how the proportionate disclosure system for smaller issuers works. This could be an opportunity for further simplification and harmonization of the essential requirements. Secondly, proportionality will also be ensured when looking at the contributions that banks have to provide to the resolution funds, depending on their size and risk profile. Thirdly, in the numerous reviews we will undertake on the legislation, one of the

aspects I will want to look at is precisely whether we got the proportionality aspect right.

The accounting requirements for SMEs in the recently adopted Accounting Directive have been simplified. This will bring benefits to SMEs in terms of reduced reporting costs. These disclosure requirements may not however be sufficiently detailed for SMEs that wish to access capital markets. Reflection should be given as to whether a common accounting standard could help SMEs access capital markets across the EU. This specific accounting standard would also contribute to the emergence of SME Growth Markets.

Or to give another example, while AIFMD (which is due for revision by 2017) was a rulebook designed for hedge funds, private equity and real estate operators, implementation has shown that smaller operators, such as local cooperatives, also fall within its scope. We could also consider this further.

***20. Could you provide the committee with a complete list of the financial services clients you personally, or the companies in which you held directorships or shares, worked for?***

The information on financial services clients in the past that you request is not in my possession. Going back some 25 years, this information belongs to companies in which I no longer have any role and which have also changed ownership a number of times. Since March 2010, Quiller Consultants has published a list of clients for whom it has carried out public affairs work as part of the voluntary industry code. I left in May 2010 to join the UK Government.

The fundamental point is that I have no directorships, no shares, indeed have no interests at all, in any financial services companies. I have no incentive or reason to give anyone any kind of preferential treatment. The Commission rightly sets a rule that no Commissioner can consider employment in any area for which they have had responsibility for 18 months after leaving office. It is now three times as long as that since I left Quiller.

I will publish a list of external meetings that I hold, in line with the Political Guidelines of the President-elect. My over-riding commitment – and duty – is to act in the European interest and not in the interests of any one Member State: nor of course in the interests of any particular company or commercial interest.

**21. Do you agree that financing of the three European Supervisory Authorities wholly by the sectors they supervise, as indicated in the mission letter by President-elect Juncker, is simply taxation through the back door?**

At a time when public spending is so tight across the EU, I believe it is sensible to look at alternative sources of funding for the ESAs. A fee for a service – in this case supervision – is not the same as taxation. The direct supervision of Credit Rating Agencies by ESMA is a clear example of such a service provided. Similarly funding arrangements based on administrative fees have been agreed by co-legislators under the SSM and the SRB legislative texts.

We will carry out a thorough assessment of all possible options, including wide consultation, before coming forward with a legally sound approach. My intention is to involve this House fully in this work.

**22. Could you provide us with a specific figure/estimate on the size of the implicit funding subsidy for Too Big to Fail Banks by taxpayers in the EU and how you envisage removing that subsidy by means of banking regulation?**

It has been estimated that implicit public subsidies enjoyed by the largest European banks, jointly representing 60-70% of EU assets, amounted to approximately EUR 72-95 billion and EUR 59-82 billion in 2011 and 2012 respectively<sup>1</sup>. The estimates by other institutions, such as the International Monetary Fund, also confirm that significant implicit subsidies exist.

There are two key legislative frameworks aiming at removing that subsidy:

The Bank Recovery and Resolution Directive and the Regulation on the Single Resolution Mechanism, applicable as of next year, will ensure that the vast majority of banks will in future be resolvable by minimising the burden on taxpayers' money. Furthermore, well-advanced work in G20 on so-called Total Loss Absorbing Capacity

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<sup>1</sup>Estimates mentioned in the impact assessment accompanying the Commission's proposal on the bank structural reform adopted by the Commission in January 2014.



(TLAC), will further enhance the loss absorbing capacity of large systemic banks, thus further removing implicit state subsidy.

Resolution of the largest and most complex banking groups heavily engaging in trading activities may however prove very challenging and might not fully remove the implicit public subsidy. The failure of such banks could still place a significant burden on the public safety net and additional measures are therefore necessary.

That is the Commission proposed a Regulation on bank structural reform, currently under negotiation. I will seek to bring the negotiations to a successful conclusion as soon as possible, working closely with this Committee.

**23. In relation to the Commission proposal on Benchmarks, there is significant pressure to extend or increase the number of definitions of benchmarks. Do you take the view that it is appropriate to have different supervisory rules for different benchmarks, depending on their importance, which could give rise to regulatory arbitrage, or do you think it is better to have a simple supervisory rule that applies to all benchmarks?**

First, I would like to make clear that the misconduct we saw with regard to LIBOR and EURIBOR was totally unacceptable and showed clearly a gap in regulation.

I strongly support benchmark reform, and in particular the Commission proposal adopted in September 2013 which divided benchmarks into two main regulatory categories – benchmarks and critical benchmarks. There were then three other sub classifications – interest rate benchmarks, commodity benchmarks and benchmarks based in regulated data (e.g. stock indexes). Overall this means that the proposal had in theory 6 supervisory regimes. This was done to adjust the regimes to ensure proportionality and to address the vulnerability and potential impact of different classes of benchmarks.

Clearly the case can always be made for further sub divisions of each of these classes on the basis of risk, impact, vulnerability etc. and numerous such proposals have been put forward. The negotiations on this proposal are ongoing and the scope is one important matter being discussed. However, with each such subdivisions opportunities for arbitrage are created and the costs to supervisors and industry of interpreting the increasingly complex legislation and determining which category they fall into increase. So there is a trade-off and my judgment, based on the impact assessment, is that a relatively simple regime is the more effective and proportionate approach.

So my objective is that the EU has a Benchmarks Regulation which is effective and ensures proper supervision of the administrators of the benchmarks. And in particular, I believe it is necessary that all benchmarks are covered by the future legislation in order to protect investors and ensure confidence in markets.