



2019

*Europe - U.S. Symposium on Building
the Financial System of the 21st
Century*





Threats to Cross-Border Banking: Resolution and Brexit

- Cross-border resolution – global dimensions
 - Ringfencing has become the global norm
 - Subsidiarization, internal TLAC
 - Is SPOE effectively dead?
 - Lack of legal clarity - definitions, functions, regulation of branches vs. subs
 - Coordination in case of actual resolution
 - Trust and ringfencing – “trust” and coordination are easier when the cash is in place (TLAC, MREL, etc)
 - Lingering questions:
 - Is fragmentation reasonable price to pay to protect taxpayers?
 - Fed’s toolbox to stop contagion limited by Dodd-Frank
 - Is banking more or less fragile in this new world?



Threats to Cross-Border Banking: Resolution and Brexit

- Cross-border resolution – Europe
 - Even within EU, cross-border resolution is challenging
 - Italy examples: bail-out rather than bail-in
 - Gaps persist among ESRB, EC, and national authorities
 - EU resolution directive superimposed on varied national bankruptcy laws
 - Actual bank failures follow political, not just legal, logic
 - SRF still not fully funded
 - Basic problem: EU is trying to solve political problems through regulation, but outcomes ultimately depend on social impact



Threats to Cross-Border Banking: Resolution and Brexit

- Brexit and “enhanced equivalence”
 - Is this a promise or a threat?
 - UK may face higher information and legal requirements, extraterritorial supervision
 - Implications for US?
 - Opening the black box of equivalence
 - Reducing UK uncertainty of future – reciprocity? procedural transparency?
 - Is there a multilateral solution to the web of bilateral agreements?
 - Equivalence should be outcomes-based, non-politicized
 - Should not require submission to extraterritorial supervision
 - Goals of actors differ
 - EU: accommodating Brexit is secondary to CMU, SRF; seeking competitive advantage
 - UK: bank branches in EU limited, so main concern is markets and CCPs



Threats to Cross-Border Banking: Resolution and Brexit

- Fragmentation as the new normal in Europe
 - Limited European financial market so far, despite CMU dreams
 - Fragmentation results from regulation, supervisory practices, politics
 - MiFID II effects – liquidity pools, localization of CCPs, etc
 - Effects of fragmentation
 - Liquidity down, costs up
 - May be price of being global for banks, but damaging to asset managers
 - Does not improve resolvability
 - Politics of fragmentation
 - Are European countries looking again to national champions?
 - Is Brexit just one example of populist-driven fragmentation?



The Evolution of the Asset Management Industry

- Changing face of asset management
 - Key question for regulators and industry: how well are end-investors being served?
 - Competition and tech
 - Changing trading and allocation strategies
 - Driving down costs for investors
 - Changing balance of active and index funds
 - Debate on impact of index investing on liquidity, price determination
 - Retail distributors shifting from selling funds to selling portfolio allocation



The Evolution of the Asset Management Industry

- EU asset management
 - Market liquidity and efficiency lag US
 - EU regulators still see asset managers as big, bank-like SIFIs
 - But end-users actually own shares, not funds, & mutual funds not leveraged
 - Lingering suspicions of foreign asset managers, preference for domestic
 - Is ECB the right regulator?
 - Structural challenges
 - Lack of private pension funds retards both growth of asset management sector and feasibility of CMU
 - Lack of culture/tradition of risk capital in much of Europe
 - Effects on allocation of capital, economic growth



The Evolution of the Asset Management Industry

- Composition of indexes
 - Bespoke “indexes” subvert the whole point
 - Not really indexes
 - Grading on their own curve
 - Is there a role for government?
 - Standard setting, transparency, “taxonomies”
 - May be a slippery slope!
 - Potential benefits of competition among indexes and index funds
- Benchmarks and the EU
 - Desire to protect investors (lessons of LIBOR)
 - Increasingly assertive regulation
 - What are pros and cons?
 - Extraterritoriality: will EU regulate the entire extended family of IBORs? How?



The Evolution of the Asset Management Industry

- ESG and asset management
 - Europe is asking asset management to solve societal issues
 - Comprehensive strategy or just shifting responsibility?
 - Should bear in mind that regulation of asset management means regulation of household assets
 - ESMA is building ESG agenda
 - Taxonomy of green companies
 - Will it go beyond mandated disclosure (e.g., risk-weighting of bonds)?
 - How to integrate with benchmarking rules?
 - How will Europe's ESG agenda affect the world
 - Global leader?
 - Effects on US firms?



The Evolution of the Asset Management Industry

- US approach is still private, voluntary
 - Private standard-setting bodies
 - E.g. Sustainability Accounting Standards Board
 - Market-driven
 - Disclosure remains voluntary (but will this change under President Warren?)
 - Very different political status of sustainability from EU
- ESG and risk
 - Increasing sense that ESG aligns with long-term profitability
 - How to measure ESG commitment and impact?
 - Need better, more standardized data – who will provide?
 - What are the necessary tools and models?



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UPCOMING EVENTS

2019

China - U.S. Symposium

June 5 – 7, Washington, D. C.

Japan - U.S. Symposium

October 4 – 6, Odawara, Japan

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