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## Statement by Steven Maijoor, Chair of the Joint Committee of the European Supervisory Authorities

### ECON Hearing, Brussels

Honourable Chair and Members of the Parliament,

It is my pleasure to address you today in my role as Chair of the Joint Committee of the European Supervisory Authorities for 2018. In doing so, I will outline the key activities of the Joint Committee this year, as well as highlight aspects of our work which we consider to be of particular importance, both now and in the near future.

I will begin by addressing the most notable piece of cross-sectoral legislation that came into force this year – the PRIIPs Regulation. We now have firm rules in place, based on Regulatory Technical Standards developed by the ESAs, which increase the transparency and comparability of investment products through the issue of a standardised short form disclosure document. In the past nine months, since the entry into application of the PRIIPs Key Investor Document (KID), the ESAs have been working diligently with stakeholders to ensure the smooth implementation of the new rules. To this end, we have published Questions and Answers on a range of topics, in order to clarify the application of the rules and promote common supervisory approaches and practices in the implementation and supervision of the PRIIPs KID.

Of course, it is natural that during the introduction of such broad, new rules that we would encounter some growing pains. The ESAs have been analysing the issues raised, based on information gathered from National Competent Authorities and stakeholders, in order to examine the basis of these issues and determine appropriate solutions. For example, in July we called upon the European Commission to provide detailed public guidance on which types of products, and in particular bonds, fall within the scope of the Regulation. We have also been assessing evidence as to whether the performance scenarios are providing reasonable expectations of possible returns, and issues relating to occurrence of negative transaction costs.

In addition to these issues, the exemption provided for UCITS from preparing a PRIIPs KID is due to expire on 31 December 2019. The PRIIPs Regulation provides for a review to be conducted by this date, including to address the end of this transitional measure for UCITS.



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However, due to the one-year delay of the implementation of the PRIIPs Regulation, the Commission informed the ESAs that the review of the PRIIPs Regulation will be deferred. Without legislative changes, as of January 2020, UCITS managers will be required to produce both a UCITS KIID and a PRIIPs KID. The challenges of such duplicate or parallel disclosure requirements was clearly explained in a recent letter by the ESAs to the Commission.

In the letter we urge the Commission to take steps to avoid such duplication and indicate that we believe that targeted amendments to the PRIIPs Delegated Regulation is the best course of action to address some of the issues I have outlined, as well as the potential application of the PRIIPs KID for UCITS. This review should be conducted as soon as possible, in order to allow for co-legislators to consider any necessary legislative amendments before the end of the current legislative term.

Another key area for the Joint Committee in 2018 has been anti-money laundering and counter-terrorist financing (AML/CFT). Over the past year, we have witnessed a number of very high-profile cases where banks' controls appeared to have been failing to prevent financial crime, sometimes at an unprecedented scale. These cases have given rise to concern that the EU's current AML/CFT framework may not be good enough, and that some national authorities' approaches to the AML/CFT supervision of their sector could be improved. These concerns, and a number of possible solutions, were highlighted in a recent reflection paper by the Joint Working Group on AML, which was chaired by the Commission and of which the ESAs were members. We fully endorse the view that the AML/CFT framework in the EU needs to be reviewed in order make the European system truly fit for purpose. In the short term, the legislative proposal put forward by the Commission last month represents solid first steps in the right direction that will significantly enhance the convergence of supervisory standards and help make AML/CFT supervision more effective. We think that it is right that the EBA should play a central role in this.

At Joint Committee level, work on setting clear supervisory expectations and standards in relation to AML/CFT matters is continuing at pace, with a particular focus on identifying new and emerging risks and strengthening supervisory cooperation through new guidelines and a draft agreement between AML supervisors and the ECB on the practical modalities for the exchange of information. The Joint Committee has also begun to focus on the effective implementation of the guidelines and technical standards it issued under the 4th Anti-Money Laundering Directive.

Of course, this work at Joint Committee level is in addition to the good work of the EBA, which has also done a lot of work to strengthen AML/CFT supervision in Europe through investigating potential breaches of Union law action in several Member States, as well as initiating ambitious reviews of national approaches to the AML/CFT supervision of banks.

This year, the Joint Committee continued its key role on monitoring and assessing cross-sectoral risks. Our regular discussions on market developments, and in-depth analysis of emerging risks, help us identify the main areas of supervisory concern across the EU. Our bi-annual Risk Reports allow us to then emphasize these issues to stakeholders. Across both editions to the Report this year, we particularly highlighted the uncertainties around the



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terms of the UK's withdrawal from the EU, where we advised EU financial institutions and their counterparties, as well as investors and retail consumers, to consider timely mitigating actions to prepare for Brexit – including possible relocations and actions to address contract continuity risks. In the coming months, as we enter into a critical period in the EU-UK negotiations, discussions and information sharing at the Joint Committee will continue to be essential.

The Joint Committee has once again been very active in work on enhancing confidence and strengthening the protection of European consumers and investors and monitoring financial innovation. The Joint Consumer Protection Day, which took place in Lisbon this year, allowed us to have an open dialogue with stakeholders, and representatives of consumers in particular, on the key consumer issues being addressed by the ESAs currently. One of the topics covered that day was the ongoing crucial work by the ESAs on bringing greater transparency to the costs and performance of retail investment products. Following extensive analysis on the main categories of these products, the ESAs will soon issue their first iteration of a series of reports that will help consumers make better informed decisions and to compare products efficiently. This will also hopefully create healthier competition amongst financial institutions.

In the area of financial innovation, virtual currencies gained much prominence in the past year. At the beginning of the year, we witnessed astounding price increases in well-known virtual currencies such as Bitcoin, despite major difficulties in ascertaining their fundamental value. Extreme price volatility raises risks for retail investors, especially when these instruments do not benefit from any protection associated with regulated financial services. This prompted the ESAs to issue an investor warning to highlight these concerns. Elsewhere, in our work on financial innovation topics, we published a report, together with a consumer factsheet, on the use of big data by financial institutions, weighing its risks and benefits.

Finally, I wish to briefly mention the work of the EBA and ESMA on the treatment of retail holdings of debt financial instruments, following concerns that the distribution of these instruments issued by financial institutions to retail clients may raise significant consumer protection issues and affect the practical application of the resolution framework under the BRRD. The Joint Statement urged institutions, market and resolution authorities to cooperate and properly consider these retail holders when carrying out their respective tasks.

A lot has happened across the EU's financial sector this year, with advancements on key projects such as the Capital Markets Union and the Banking Union, new legislative proposals on a range of topics from sustainable finance to AML, topped off with the impending exit of the UK from the EU and the increasing importance of the ESAs Review discussions. The focus on these issues will continue into the next year, and beyond, and the Joint Committee will continue to serve as an important forum for addressing matters of this nature. We look forward to a continued constructive dialogue with the European Parliament in this regard.

Thank you for your attention.