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Macropolitical developments

Italy – Government stability greatly compromised after coalition party loses its leadership

- The stability of the Italian coalition government composed of centre-left Democratic Party (PD) and the anti-establishment Five Star Movement (5SM) has been greatly compromised following the resignation of 5SM leader Luigi di Maio.
- Di Maio, who also currently serves as Foreign Minister, will retain his Ministry but gave up the leadership of the party which will temporarily be run by Deputy Interior Minister Vito Crimi until a party congress in March. The possible victory in March of 5SM member Alessandro di Battista, di Maio's first rival and a strong opponent of PD, could give the final blow to the already shaky coalition government and lead the country to snap elections.
- The resignation came as a consequence of the loss of popularity of 5SM which recently lost over 30 party members who distanced themselves from the party's decisions made during the last two legislatures.

Next steps: The 26 January regional elections of Calabria and Emilia Romagna will be a test for the survival of the government, while the internal party elections to decide the new leadership of 5SM will be held in March.

Germany – Chancellor Merkel calls for a more competitive EU

- German Chancellor Angela Merkel has spoken about her priorities for the EU, stressing the need for the bloc to become more competitive in view of Brexit and trade wars with the US and China.
- Ms Merkel highlighted the need to protect multilateralism at a time where it is under threat, stating that Germany will use all the benefits of the EU and the Single Market to make it more competitive on the world stage. This will notably require to advance progress on the Capital Markets Union (CMU), and integrate fragmented equity and debt markets in Europe. She did, however, also concede that Germany is still hesitant when it comes to harmonising the European banking landscape under the Banking Union project, due to concerns over the need to first reduce risks in some Member States (MS). Finally, she advocated for an European alternative approach to data in relation to the US and China, in order to allow individuals to be sovereign over the treatment of their own data, while also underlining the importance of a European industrial policy that allows key technology such as chips and battery cells to be manufactured in the EU.
- Ms Merkel's views are very much in line with those of the new European Commission (EC) under President Ursula von der Leyen. The comments come at a time when the German rotating Presidency of the Council will start soon – in July 2020.

Spain – Prime Minister Sanchez appoints his new cabinet

- Spanish Prime Minister (PM) Pedro Sánchez has revealed the composition of the coalition government between the Socialist PSOE and far-left Podemos parties.
- Pablo Iglesias, leader of far-left Unidas Podemos, Carmen Calvo, Nadia Calviño, Finance Minister under the previous government, and Teresa Ribera will be Vice-Presidents. Nadia Calviño and Teresa Ribera will be respectively in charge of economic affairs and ecological transition. Arancha González Laya, former European Commission (EC) spokeswoman for trade, was appointed Foreign Affairs Minister. Juan Carlos Campo became Minister of Justice, a crucial role in Spanish politics considering the on-going political conflict in Catalonia.
- Key portfolios such as economy and climate change as well as the ministries of defense, justice, interior and foreign affairs will continue to be run by the centre-left PSOE. The fragile minority government will first have to draft a national budget for 2020 that can be approved by Parliament, which should include increases in corporate and income taxes as outlined in the coalition agreement.

Regulatory Issues

FTT – Austrian government calls for broader EU proposal scoping in highly speculative activities

- The Austrian government has asked for the current EU-10 Financial Transaction Tax (FTT) draft proposal to be revised to target high-frequency trading activities (HTFs) and derivatives, criticizing German Finance Minister Olaf Scholz' recent proposal to other FTT-10 Finance Ministers.
- Austrian Finance Minister Gernot Blümel (centre-right ÖVP) has voiced his support for a new broader EU proposal which would specifically target highly speculative activities, echoing the comments made by the German centre-right CDU/CSU parliamentary group concerning Scholz' proposal to EU Finance Ministers in December. The new Austrian ÖVP/Greens government included a proposal to move forward with an EU FTT in its coalition deal. The centre-right agreed to the Greens' push to modify the design of the FTT under discussion at EU level as it considers it to be harmful to Austrian companies. The new Austrian position is likely to delay negotiations as new political talks will be required.
- Moreover, the NGO Better Finance has stated it can no longer support the EU FTT in its current form, as it believes that the current framework would impact mostly citizens and does not sufficiently target financial institutions because of the proposed exemptions.

Next steps: Another round of political talks is to be expected, which will begin at the 18 February ECOFIN at the earliest.

FSB – Report on non-bank financial intermediation focuses on liquidity

- The Financial Stability Board (FSB) has published its 2019 Global Monitoring Report on Non-Bank Financial Intermediation (NBFI), providing an overview of key developments and systemic risks within the sector.
- The report highlights that 2019 saw the first decrease in assets in the non-bank sector since the 2008 financial crash, following the stock market decline in December 2018. It notes that slowed growth in 2018 for Collective Investment Vehicles (CIVs) assets could pose financial stability risks. It also suggests that fixed income funds may face liquidity management risks during times of market stress due to potential liquidity mismatches. On real estate funds in particular, the report highlights the need to assess the effectiveness of liquidity risk management for open funds and the use of leverage for closed funds. The report also suggests that the participation of funds in the commercial real estate markets should be regularly reviewed by the authorities and that this requires the collection of additional data.
- On the Woodford suspension, it presents a nuanced analysis in suggesting that the case was idiosyncratic and managed with existing tools without spill over effects.

Sustainable finance – European Commission publishes sustainable investment plan and Just Transition Fund proposal

- The European Commission (EC) has published a communication on the Sustainable Europe Investment Plan and a proposal for a Just Transition Fund (JTF), two important pillars of its European Green Deal as announced in December 2019.
- The Sustainable Europe Investment Plan is the investment pillar of the Green Deal and sets out the different sources that will be used to generate the EUR 1 trillion in investment that is needed to transition to a low-carbon economy: the EU budget, Member State co-financing, innovation and modernisation funds, InvestEU, and the JTF. Moreover, the communication develops an enabling framework for private investors and the public sector and announces tailored support to public administrations and project promoters.
- The sustainable investment plan is a crucial element of the Green Deal, as it will have to address the investment needs required by the EC which are currently set at EUR 260 billion per year of additional investment for the 2030 climate and energy targets. Moreover, the establishment of a JTF that supports the regions and sectors that are most affected by the low-carbon transition is seen as an important step to secure Member State support for the EC's ambitious Green Deal.

Next steps: The EC will publish a renewed sustainable finance strategy in the third quarter of 2020.