
ANNUAL REPORT 2014



Finance Watch

Making finance serve society

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Finance Watch has received funding from the European Union to implement its work programme. There is no implied endorsement by the EU or the European Commission of Finance Watch's work, which remains the sole responsibility of Finance Watch.



Making finance serve society

Finance Watch is an independent, non-profit, Members' association dedicated to making finance work for the good of society. It carries out public interest advocacy and supports civil society participation in the development of European financial regulation.

Despite the many reforms undertaken since the financial crisis, our financial system still does not serve society. The needs of the real economy – especially creating jobs and growth – are secondary to a system dominated by derivatives, too-big-to-fail banks and financial speculation. Instead of reforming itself after the financial crisis, the financial industry has lobbied hard against change, providing reasons for policymakers to put the interests of financial firms first.

We need a better balance between private and public interests so that the financial system can benefit the entire community.

Finance Watch's mission is:

- to act as a counterweight against the private interest lobbying of the financial industry,
- to strengthen the voice of society in the reform of financial regulation,
- to advocate public interest outcomes in financial regulation.

What we are working for:

Finance Watch's vision is for a financial system that allocates capital to productive use through fair and open markets in a transparent and sustainable manner, without exploiting or endangering society at large. See page 17 for more details.

Letter from the chair



Kurt Eliasson

Kurt Eliasson became Chair of Finance Watch in November 2014. He is the Chairman of Housing Nordic (NBO) and CEO of SABO Sweden and has served as a Board Member of Finance Watch, representing Housing Europe, since November 2013.

“Finance Watch advocates for a financial system that works with society not against it”

A famous songwriter once said, “it is discouraging how many people are shocked by honesty and how few by deceit”. When I read claims that essential financial regulations will somehow ‘hurt the real economy’ and other attempts to override the public interest, I am grateful that we have Finance Watch to set the record straight. It is an honour to take my turn as Chair at an association whose only purpose is to serve the public interest in financial regulation.

In the public housing sector, where I worked for many years, one sees that the public interest is sometimes supported by commercial and financial interests and sometimes undermined. Finance Watch’s mission to make finance serve society is therefore good economic sense: we advocate for a financial system that works with society not against it, one that focuses on delivering indispensable services to the real economy. Finance Watch is also contributing to a plural, inclusive democracy, in which citizens’ voices are not drowned out by powerful, private actors.

The year 2014 brought renewal for the EU’s institutions and also for our association. I appreciate that my predecessor, Monique Goyens, left Finance Watch in excellent shape: as a well-respected professional association with an excellent new Secretary General, a refreshed Board of Directors, up to date governance arrangements, plans to grow the Membership and an ambitious work programme. I wish to thank Monique Goyens for her leadership in achieving this. I also wish to record my appreciation for Thierry Philipponnat, Finance Watch’s founding Secretary General, for the inspiring and successful work he did in bringing Finance Watch to life.

Together with the Board, I extend a very warm welcome to Christophe Nijdam, our new Secretary General, and look forward to working with him and the team to develop Finance Watch as an ever more effective champion for EU citizens in the area of finance.

With kind regards

Kurt Eliasson
Chair
On behalf of the Board of Directors

Interview with the Secretary General

Welcome Christophe. What do you expect to be the most challenging aspects of your new job?

Christophe Nijdam > Thank you, it is a great pleasure to take on this role. I believe our biggest challenge now is to help policymakers understand that if we want growth and jobs we need effective regulation. The financial crisis destroyed millions of jobs and threw the economy into recession. This was not because of regulation, but because of a lack of it.

In the 1980s you worked for a number of big banks in New York. How did you see the move towards liberalisation of the financial sector back then?

C. N. > Being right inside the sector while the financialisation of the economy took off, my belief at that time was that liberalised markets could indeed be more efficient than highly centralised markets. You should not forget that in those years we still had the Iron Curtain and two politically and economically different systems that were confronting each other. On one side the Soviet Union, the centralised economy, and on the other side the “free world” with free markets. So in those days, I believed that the latter framework was superior to all other economical organisation. That is what I thought at the time, but later on I learned some very different lessons.

How has your view evolved since then?

C. N. > Later on, probably starting from the mid-1990s onwards until the 2008 crises, even though I was and remain a free market advocate, I started to feel that some of the free market consequences were going awry.

For instance, the derivatives market where I worked was really going wild at that time. Another example is how the compensation of people working in the financial industry shot up with no link to the utility of those functions for society.

We lost a lot of ethics in the industry and people were just thinking about how to make a quick buck, without thinking about the possible consequences for the rest of society.

So from the mid-1990s on, I realised that, yes, free markets are better than



Christophe Nijdam

Christophe Nijdam became Secretary General of Finance Watch in January 2015. He was previously an independent banking analyst and banker with more than 30 years' experience (see Christophe's biography on page 11).

centralised markets, but free markets cannot regulate themselves, especially with such wrong financial incentives.

After leaving the banking sector and before joining Finance Watch, you worked for twenty years as a financial analyst. What was your motivation?

C. N. > As a banker, I used to work mostly on the debt side of finance; on loans when I was a corporate banker and then on bonds and derivatives when I was an investment banker.

In the next part of my career, I wanted to get involved on the equity side. Being a financial analyst and a stock analyst requires a strong analytical capacity; you have to really understand a company's business strategy to put a price on its equity. So intellectually speaking, it was a further challenge for me and it was very interesting.

Is the complexity of finance a problem for democracy?

C. N. > I have been writing articles since the mid-1990s and teaching at Sciences Po (the Paris-based university) since the late-1990s.

For me, financial education is important for each individual to enjoy their economic freedom. Finance does not have to be highly complicated. Our economic and financial reasoning should be based on common sense, on simple rules like “risk and return” or “if you do not understand certain things, then don't invest in them!” For me, this is also one of the reasons why Finance Watch plays such an important

role: we cannot leave a small minority of society, experts from the financial sector, to say “please do not touch it, only we know how it works”. Now we can reply “we also know how it works and we want to make it work for the benefit of society”.

What was your motivation to join Finance Watch?

C. N. > I supported Finance Watch since its beginnings, as I was strongly convinced of the need for such an organisation. That is why in June 2011, when Finance Watch was created, I was closely involved with the initial individual founding members.

Becoming its Secretary General, I am very honoured and feel a certain pride to be engaged in a mission that I strongly believe in and that goes far beyond my personal interest.

In a nutshell, I am an ex-banker, somebody who has actually worked in the financial sector who is strongly convinced that the financial sector needs to be reformed. I have loved this profession but I saw that something went wrong in the last 15 to 20 years. That is why I want to change finance in a positive way, not going back to the dark ages but moving to a system that can function well in the future.

Finance, when it is done properly - with ethics, the right incentives, and the right time horizon - can be a very powerful tool for economic progress.

In fact, it is because I like finance so much that I want to contribute to make it go back to serving society.

Highlights of 2014

MEMBERS' ACTIVITIES

Finance Watch's Members met regularly in 2014 at workshops, General Assemblies and national gatherings, and in conference calls of the various Working Groups covering topics such as banks, TTIP, Dashboard, Long term financing, and Socially Responsible Investment. Finance Watch and its Members co-organised public events in Paris, The Hague and Berlin. Members also received 40 detailed email updates with legislative and other news from Brussels.

EVENTS

In May, Finance Watch held its first expert symposium in London, bringing together financial industry and civil society experts to brainstorm policy ideas on socially responsible investment. The workshop, entitled "From ESG (economic, social, governance) corporate communication to non-financial performance indicators: boosting the impact, legitimacy and market share of responsible investment" led to a report listing practical recommendations to turn responsible investing into a more mainstream activity.

In November, we held a public event in Brussels entitled "What finance for what growth?", where panellists discussed what sort of finance would support sustainable growth. The discussion was introduced with a keynote speech from the new ECON chair, Roberto Gualtieri MEP.

We also hosted a German press event at our new offices in May, and hosted a Friends of Finance Watch evening at our offices in Brussels in July for Belgium-based members of the general public to meet the team.



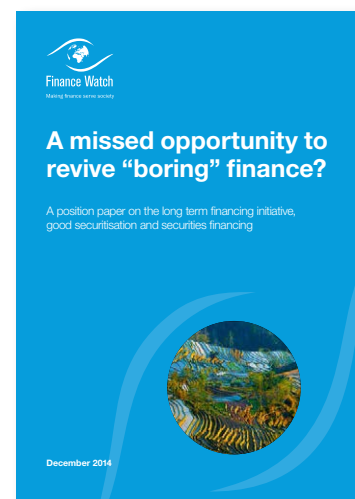
Panelists at Brussels event "What finance for what growth?", November 2014.

POLICY ANALYSIS

In total, Finance Watch made 17 technical interventions in 2014, including six consultations, five reports and policy briefs, two hearings in parliaments, three open letters and a cartoon.

We released a detailed position paper "A missed opportunity to revive "boring" finance?" in December on long term financing, securitization and securities financing. The report was published with a cartoon in German, English, French and Polish. Other highlights include:

- Open letter to outgoing Commissioner Michel Barnier on the completion of his mandate, highlighting the need for the EU to resist pressure to deregulate finance, among other things
- Recommendations for incoming Commissioner Jonathan Hill on regulatory priorities, answering the questionnaire put to him by the European Parliament
- Policy Brief "Too-big-to-fail in the EU" on the main regulatory actions taken so far to end TBTF banking
- Policy Brief "Structural reform to refocus banks on the real economy"
- Materials on the ECB stress tests and asset quality review
- ECON Committee hearing on TTIP and Financial Services



GOVERNANCE AND FUNDRAISING

Finance Watch appointed a new Secretary General in 2014, Christophe Nijdam (effective 1 January 2015), and elected a new Chair of the Board, Kurt Eliasson. Members also approved a new set of governance rules to make the Membership and Secretariat more cohesive. In the secretariat, we created the new position of Head of Strategic Development, filled by Benoît Lallemand, to lead our development and fundraising efforts.

PUBLIC AFFAIRS

The focus of our public affairs work in the first part of the year was on completing dossiers such as MiFID II and PRIIPs before the pre-election deadlines, and in the second part of the year on establishing relations with incoming MEPs and influencing the new political environment. We attended 131 meetings with policymakers and other stakeholders, and participated as speakers in numerous conferences, debates, round tables and other external events. Further details of our public affairs work is documented in Parts II and III of this report.

NEW OFFICE

The secretariat moved offices on 31 March. You will find us at Rue d'Arlon 92, Brussels, still around the corner from the Parliament but closer to the Commission in cheaper (but larger) offices. The new office includes a meeting room where we can host workshops and board meetings, and desk space that Members are welcome to use when visiting Brussels.



COMMUNICATIONS

The secretariat issued 14 press releases and counted 250 items of press coverage mentioning Finance Watch from 23 countries. Around a third of these were in articles about banks, a third about lobbying, and the rest on consumer protection, TTIP and Finance Watch.

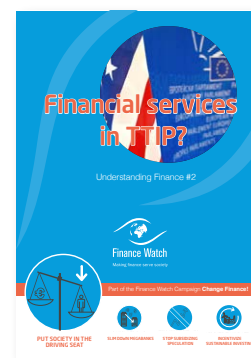
We produced three webinars in 2014: on ECB stress tests, bank separation, and investment banking. The 8,468 Friends of Finance Watch received ten newsletters during the year with average open rates of 32%, and our Facebook and Twitter communities grew by a third to 14,885 and 5,285 by the end of the year.



▲ Webinar: *What is investment banking?*, December 2014

EDUCATIONAL UNITS

Finance Watch produced two multimedia educational units as part of our “Understanding Finance” series, the first on splitting megabanks, the second on TTIP. These explain key areas of financial reform to the public and present Finance Watch’s views in jargon-free language. They were produced in English, French and German.



EUROPEAN ELECTIONS AND RENEWAL OF INSTITUTIONS

Ahead of the May 2014 European Parliament elections, Finance Watch and some of its Members organised successful hustings events in France and the Netherlands to question candidate MEPs about their plans for financial regulation. Later in the year, we helped MEPs to prepare for Commissioners-designate hearings and ensure that key public interest topics were put forward in the hearings.



Governance

Finance Watch is committed to transparency, independence and good governance. The governance structure described in detail in our Articles of Association has been designed with these values in mind and allows for a clear separation of responsibilities.

General Assembly

The General Assembly is Finance Watch's highest governance body. Both types of Member (Member Organisations and Individual Members) are entitled to attend and vote via separate 'voting colleges'. The votes of each college are weighted so that votes from Member Organisations together represent 60% of the total vote, and votes from Individual Members together represent 40% (apart from for Board elections – see below). The General Assembly meets at least once and usually twice a year to debate and approve Finance Watch's key action priorities, to approve the budget and accounts, elect the Board of Directors, and approve the membership of the Committee of Transparency and Independence (CTI).

Committee of Transparency and Independence

The Committee of Transparency and Independence (CTI) is responsible for safeguarding the independence of Finance Watch's advocacy and avoiding conflicts of interest concerning membership and funding. It must review all applications for membership of Finance Watch and all offers of funding above €10,000. It then provides a recommendation to the Board, which takes the final decision.

The CTI has between three and five members, proposed by the Board and approved by the General Assembly for a term of three years, renewable once. CTI members cannot also be Members of Finance Watch. CTI members are not paid for their services and their register of interests is published on the Finance Watch website.

Board of Directors

The Board currently comprises six Directors elected by and from the General Assembly (four Member Organisations and two Individual Members). The General Assembly in November 2014 agreed that two external Board Directors from outside the Finance Watch Membership would be recruited to bring the total number of Directors up to eight; further details will be provided in due course. Board directors, who are not paid, may stand for two consecutive mandates of three years and may stand for election again after a two year absence following the end of their second mandate. The weighted college voting system does not apply to elections for internal Board Directors, who are elected directly within each voting college.

Secretary General

The Board of Directors appoints the Secretary General for a term of five years, renewable once. The Secretary General reports to the Board and can be dismissed by them on a two-thirds majority. The Secretary General has day-to-day responsibility for the staff, strategy, operations and output of Finance Watch.

WHO'S WHO

BOARD OF DIRECTORS



Kurt Eliasson (*Swedish*), chair
Chairman of Housing Nordic (NBO) and CEO of SABO Sweden, representing FW Member Organisation Housing Europe.



Anne Fily (*French*),*
BEUC Special Advisor, representing FW Member Organisation The European Consumer Organisation (BEUC).



Hanna Sjölund (*Swedish*),*
UNI Europa Policy Advisor to the Regional Secretary, representing FW Member Organisation UNI Europa.



Jacques Terray (*French*),
Vice-chair of TI France and former member of TI International Board of Directors, representing FW Member Organisation Transparency International EU Office.



François-Marie Monnet (*French*),
Independent advisor to family wealth offices, associate of l'Observatoire de la Finance, former investment banker and journalist.



Prof. Dr. Rainer Lenz (*German*),*
treasurer
Professor of finance at the University of Applied Sciences in Bielefeld, former investment banker and Economic Advisor at the Namibian Ministry of Finance

* Elected/re-elected 25 November 2014



Should I join Finance Watch?

As a Member, you can:

- participate in Finance Watch's governance and strategic direction,
- join other civil society groups from around Europe advocating for financial reform,
- share expertise and coordinate campaigning actions in dedicated Working Groups,
- call on the technical and EU lobbying expertise of the Finance Watch secretariat,
- receive detailed weekly updates on policy and legislation, and invitations to events,
- network with other civil society organisations at our meetings and workshops.

COMMITTEE OF TRANSPARENCY AND INDEPENDENCE FOR 2014-2017



Michael Wiehen (*German*), with Transparency International since 1995, previously with the World Bank and Dresdner Bank in Frankfurt (CTI chair).



Professor Robin Jarvis (*British*), Professor of Accounting at Brunel University, expert in SME and related accounting issues. He is a member of the European Commission's Financial Services User Group, chair of the EBA Standing Technical Working Group on Consumer Issues and Financial Innovation, and Special Adviser to the UK's Association of Chartered Certified Accountants (ACCA).



Jérôme Cazes (*French*), chair of MyCercle, an online company information platform. He was previously the CEO of Coface, the credit insurer and French export credit guarantee provider and a board member of Natixis.



Dr William Dinan (*Irish*), Lecturer in Communications, Media and Culture at University of Stirling and expert on lobbying practice and governance. He sits on the steering committee of ALTER-EU, a European NGO Alliance for Lobbying Transparency and Ethics Regulation, and the editorial board of Spinwatch.

Michael and William were appointed by the 10 November 2011 General Assembly and reappointed on 25 November 2014. Robin and Jérôme were appointed by the 8 April 2015 General Assembly.

Secretary General

The Secretary General is **Christophe Nijdam** (French), who was appointed in November 2014 and took office on 1 January 2015. He replaced **Benoît Lallemand**, who served as Acting Secretary General for the eight months following the resignation in April 2014 of **Thierry Philipponnat**, the association's founding Secretary General.

ACTIVITIES

In 2014, Finance Watch updated its governance rules to make the association more cohesive. It also elected a new Chair, several new Board Members and appointed a new Secretary General.

At the **General Assembly** on 28/29 April, Members approved the 2013 accounts and change of Finance Watch's registered office to Rue d'Arlon 92, Brussels. In light of Finance Watch's rapid development, a Members' Working Group on governance was established to examine among other things ways to promote membership growth, diversification and cohesion, to clarify the roles of individual and organisational members, to review the roles of the Board and Secretary General, and to propose suitable changes to the Articles of Association. Elections under the system of rotating board seats returned BEUC, represented by Anne Fily, UNI-Europa, represented by Oliver Röthig, and Rainer Lenz as a new individual board member. It was also announced that Veronica Nilsson would replace Andreas Botsch as the Board representative of ETUC. Members were informed that the Board had accepted the resignation of Thierry Philipponnat as Secretary General the previous week and held a discussion about next steps.

In an **Extraordinary General Assembly on 30 September**, Members discussed a set of proposals that the governance Working Group had developed over the summer. The main proposals were that the Board should reflect the diversity of the Finance Watch membership in terms of countries, gender and type of organization; that the Board composition would change from nine to six Members (four organisations and two individuals) plus two external directors; to introduce weighted voting in General Assemblies by category of membership (organisations/individuals to count 60/40); and that Qualified Members would be known as Individual Members.

In the **General Assembly on 25 November**, Members approved the modifications to the Articles of Association discussed in September; approved Finance Watch's budget and modified work programme for 2015, which includes the ongoing provision of high quality expertise and advocacy plus goals on fundraising and geographical expansion; received a presentation from Secretary General-designate Christophe Nijdam; and re-elected CTI members Michael Wiehen and William Dinan. At a Board meeting the same day, Kurt Eliasson of Housing Europe was elected Chair and Rainer Lenz was elected Treasurer.

In 2014, applications for individual membership were suspended during the governance review, and the CTI reviewed and cleared two applications from new organisational Members (Positive Money and CNCD). Both were approved by the Board and are now full Members.

We are sad to report the death of **Ieke van den Burg**, who was the founding Chair of Finance Watch and who passed away on 28 September 2014. A former MEP, Ieke was dedicated to the notion that finance should serve society. She was instrumental in the creation of Finance Watch and its successful early development and is sadly missed.

To commemorate her work, the European Systemic Risk Board's Advisory Scientific Committee, of which Ieke was an inaugural member, has since established the annual "Ieke van den Burg Prize for Research on Systemic Risk" to recognise outstanding research conducted by young scholars on a topic related to the ESRB's mission.



Secretariat

As at 30 April 2015



1 Christophe Nijdam

Secretary General*

(French)

Former banker and financial analyst (see next page); responsible for the strategy, operations and output of the Secretariat (* from 1 January 2015)

2 Joost Mulder

Head of Public Affairs

(Dutch)

Former financial industry lobbyist; advocacy on securities markets and retail issues

3 Katarzyna Hanula-Bobbitt

Senior Public Affairs Officer

(Polish)

Former financial regulator; advocacy on banking issues

4 Benoît Lallemand

Head of Strategic Development

(Belgian)

Former clearing and settlement banker; responsible for fundraising. EU advisor to Better Markets

5 Frédéric Hache

Head of Policy Analysis

(French)

Former investment banker; manages the policy analysis team, specialises in financial markets, investor protection and banks

6 Paulina Przewoska

Senior Policy Analyst

(Polish)

Former financial regulator; analysis on investment firms and banks

7 Rim Ben Dhaou

Senior Policy Analyst*

(French)

Former actuary, quantitative analyst and portfolio manager; analysis on trading book and securities financing (* from April 2015)

8 Greg Ford

Head of Communications

(British)

Former financial journalist; policy-related communications

9 Charlotte Geiger

Communications Officer

(German)

PR and social media expert; communications to the general public

10 Matthieu Lietaert

Community Manager

(Belgian)

Filmmaker and data visual expert; multi-media strategist

11 Aline Fares

Expertise and Campaign Coordinator

(French)

Former commercial banker; coordinates work with Members

12 Stephen Schindler

Membership Coordination*

(German)

Membership coordination (* short-term contract from August 2014 to February 2015)

13 Giulia Porino

Membership Coordination*

(Italian)

Membership coordination (* short-term contract from February 2015)

14 Sylvie Delassus

Head of Operations*

(French)

Operations and fundraising expert (* until May 2015, the Operations department is being reorganised and renamed Strategic Development department)

15 Adriaan Bayer

Financial Officer and Secretary of the Board of Directors

(Dutch)

Former investment fund analyst and project manager

16 Kerstin Stout

Office Manager

(German)

Former office manager for an international law firm; office administration

Finance Watch's secretariat had a permanent staff of 12 people in 2014 (increasing to 14 in 2015) and two part time consultants, all with backgrounds in banking and finance or other areas relevant for our work. The staff is organised into teams for public affairs, policy analysis, communications, strategic development/operations, and membership coordination.

In November, the Board announced Christophe Nijdam's appointment as the new Secretary General, starting January 2015, to replace the association's founding Secretary General, Thierry Philipponnat, who resigned in April. In the interim, the position of Acting Secretary General was filled by the then Co-Head

of Policy Analysis, Benoît Lallemand, who is now Head of Strategic Development, following a two month handover period with Christophe in early 2015.

In March 2014 we welcomed Paulina Przewoska as a new senior policy analyst and in April the team welcomed Kerstin Stout as our new office manager. In August, Stephen Schindler joined the team on a short term contract to support Aline Fares with membership coordination. Stephen was succeeded in February 2015 by Giulia Porino. In April 2015, Rim Ben Dhaou joined the team as a senior policy analyst.

The team was supported by external, part-time consultants Duncan Lindo, a British academic and former investment banker who provided ad hoc research on banking, and Matthieu Lietaert, a Belgian filmmaker and communications expert who helps with videos, webinars and managing the Finance Watch Facebook page.

The secretariat moved offices on 31 March, from serviced premises in Square de Meeûs to a new location at Rue d'Arlon, 92. The new offices include a space to host board meetings and workshops for up to 25 people. All Finance Watch stakeholders are welcome to drop by and visit!

CHRISTOPHE NIJDAM, NEW SECRETARY GENERAL



Christophe Nijdam started as Secretary General of Finance Watch on 1 January 2015. He brings a strategic understanding of the banking sector, an investor's perspective and operational experience in bank management, together with a strong conviction of the need to reform the financial sector. To learn more about Christophe's views, see his interview on page 5.

BIOGRAPHY

French national Christophe Nijdam has spent more than a dozen years in senior positions at several large French banks. He began his career in 1979 at Credit Lyonnais (now Crédit Agricole) New York as a financial analyst and corporate banker. In 1983 he joined the headquarters of the CCF (now HSBC France) as co-head of interest rate and currency derivatives, before returning to the US as a capital markets director. In 1989, he became US General Manager for Crédit du Nord (now Societe Generale Group) in New York. Returning to France in the early 1990s, he decided to switch to the investor side by becoming a financial analyst. He also joined the team of

Le Nouvel Economiste in 1992 as vice chair of the board in charge of financial affairs. He co-founded the independent equity research firm CAPITALACTION in 1994, where he was managing partner. A lecturer at Sciences-Po Paris from 1998 to 2008, he still teaches there in the corporate finance and capital markets Executive Masters' programme. Immediately prior to deciding to join Finance Watch, Christophe Nijdam was a banking analyst at the independent equity research firm, AlphaValue, where he worked since the firm was founded in 2008. As a volunteer, Christophe Nijdam coordinates a weekly guest column, "My dearest bank", in *Le Nouvel Economiste*.

"Society faces major challenges but the financial system today is disconnected from the needs of the real economy and of society at large"

Christophe Nijdam

"The analyst feared by bankers [...], Christophe Nijdam is one of the foremost experts on the world of banking today and one of the most ardent advocates of the separation of bank activities. It has to be said: when it comes to banks, he knows all the secrets."

L'Expansion
« Ces vigies qu'on n'écoute pas assez » June 2013

Members' Activity

Finance Watch Members work together in Working Groups, which are coordinated by Finance Watch staff and meet regularly in person or by conference call. Members in these groups can share expertise and coordinate their lobbying and campaigning activities. The groups have proven highly effective in helping Members to maximise their impact and support Finance Watch advocacy. Around half of our Members are regular participants in these activities.

PUBLIC EVENTS IN COOPERATION WITH MEMBERS

Berlin, 5 May Expert symposium on “Financing the Green Transformation, Instruments and Coalitions for Sustainable and Social Investment in Europe”, organised by DGB and the Heinrich-Böll-Stiftung in cooperation with Finance Watch and 2^o Investing Initiative.

Paris, 6 May Debate in which four French candidate MEPs (affiliated to EU political groups S&D, EPP, GUE and EFA-Greens) were questioned by an audience of 400 members of the public on their commitments to regulate finance during the next EP mandate. Co-organised with CCFD Terre Solidaire, Institut Veblen, Attac France, Secours Catholique, individual members of Finance Watch and others.

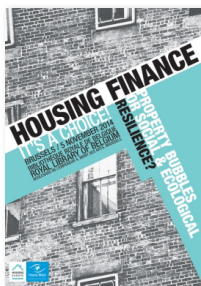


▲ Paris event, 6 May 2014

The Hague, 8 May Debate in which six Dutch candidate MEPs (including three heads of list) were questioned by more than 100 experts from NGOs, government and industry on their commitments to regulate finance during the next EP mandate. Participants reported that it was an “exceptional” debate and congratulated Finance Watch and its Members for the effort. At the event, SOMO, Finance Watch, FNV Finance, Consumentenbond, Oxfam-Novib, VBDO and Milieudefensie presented their common manifesto to future MEPs.

Berlin, 2-3 July Conference “After the EU-Elections - What now? Old problems and new challenges”, organised by WEED, Economia Civile and Finance Watch, including a panel on Financial Regulation and Supervision in Europe.

Brussels, 5 November Conference “Housing Finance: Property Bubbles or Social & Ecological Resilience?”, organised by Housing Europe and Finance Watch (see Events for more details).



Berlin, 4 December Public conference “Banks and Financial Markets: Safe and Long-Term?”, organised by Finance Watch, the German Trade Union Federation (DGB), Federation of German Consumer Organisations (vzbv), the World Economy, Ecology & Development (WEED), and Friedrich Ebert Foundation (see Events for more details).

Berlin conference on 4 December 2014



MEMBERS' WORKSHOPS AND GATHERINGS

During the year, we organised a number of workshops and national gatherings for specific groups of Members in different countries, as well as workshops at the General Assemblies.

In January, we met with local Members in Paris, Berlin, Brussels and London to discuss how to develop Finance Watch's 2013 Change Finance! Campaign, and hosted a conference call for Members in the Netherlands. These meetings with Members were used, among other things, to prepare public hustings events ahead of the EU elections in Paris and the Hague (a similar event planned in Brussels had to be cancelled).

The Paris group met on 11 March and 8 July. Finance Watch staff attended several meetings of the Transforming Finance network in London, which draws together civil society groups interested in financial reform including several of our Members, and we continued to meet with the other national groups.

We hosted a workshop for members of the Dashboard Working Group at our offices in Brussels on 26 June. In July, Finance Watch participated in a roundtable on global financial reform hosted by Bread for the World in Berlin, which led to WEED co-hosting with us a strategic workshop for 20 Members and other CSOs at our offices on 4 November to discuss the involvement of civil society in financial regulation.

Members' activity in 2014 in numbers:

10 Workshops and national meetings

6 Public events in cooperation with Finance Watch

5 Working Groups

3 General Assemblies

40 Members Update emails

MEMBERS' WORKING GROUPS

Several Working Groups met regularly during the year, as described below. In addition, staff organised ad hoc conference calls to brief Members on issues related to MiFID and PRIIPs.

TTIP The Members' Working Group on TTIP was set up in January 2014 and met regularly by conference call. With civil society attention on TTIP getting stronger, this working group aims to discuss its impact on the shape and regulation of financial services in Europe, and to bring attention from other civil society groups to the finance-related issues. During its fifth meeting, in early April, the Working Group agreed to liaise with US-based organisations. This process was subsequently led by Finance Watch Members WEED and SOMO with discussions covering regulatory convergence / cooperation, mutual recognition and extraterritorial application of EU/US law, and what to say about this in relation to the official positions on TTIP. At a session during Finance Watch's April General Assembly in Brussels, Working Group members gave presentations on TTIP and played recorded contributions from US partners. In a 16 June conference call, the group discussed Finance Watch's draft contribution to the EC consultation on investor protection mechanisms in TTIP / ISDS (a consultation that ended up receiving an unprecedented 150,000 responses thanks to the campaigns of Member organisations such as AK, FOEE, as well as other organisations). In a 16 September conference call, the group discussed ways to highlight the risks of including financial services in TTIP.

Banks The group met by conference call six times in 2014. The secretariat organised calls to discuss the Commission's Bank Structure Reform (BSR) draft when it was published on 29 January, again in more detail on 14 February, and to discuss Banking Union on 4 April, shortly after the SRM was agreed. On 6 June, there was a call about Finance Watch's lobby plans ahead of the formation of a new ECON Committee. The call included a research

update to collect feedback on an early draft of the policy brief "Too-Big-To-Fail in the EU", which assesses the different pieces of TBTF-related legislation and was published in September, and to discuss an upcoming policy brief on the ECB's stress tests and the BRRD, "Should precautionary recapitalisations make taxpayers nervous?". A call on 22 September looked into BSR lobby strategy as shadow rapporteurs were appointed, and one on 17 December discussed the state of play on BSR. In order to encourage broader involvement, the group was provided with regular written updates by the secretariat, including materials in English, German, French and Italian.

Dashboard This group was created after the Citizens' Dashboard was presented to Members at the November 2013 General Assembly. It met five times in 2014, including two workshops and three conference calls. In the group's first call on 22 January, we asked Members to contribute to the collection of potential indicators that could measure the outputs of the financial sector and of financial regulation. On 4 March, the group discussed the organisation of the project, the role of Secretariat and Members, and the scope of indicators to be included. In a 3 April call, the group shared an overview of existing dashboard-like initiatives, presented a template with four clusters of indicators, and discussed organising a workshop in June. The April General Assembly included a lively discussion of the project and on 26 June, a group of Members met at our new offices in Brussels for a one day workshop to brainstorm on the content of the dashboard. This resulted in a plan for the next steps and a long-list of 115 possible indicators from which to choose shortlisted indicators in the research phase.

Long-term financing The LTF Working Group held three conference calls in 2014 to discuss issues raised by the Commission's Communication on Long-Term Financing, published on 27 March. Two days before the Communication was published, the secretariat organised a video conference presentation and discussion about the rationale for promoting capital market financing of SMEs and infrastructure, potential systemic risks linked to the growth of non-bank lending and revival of securitisation, and user's and taxpayer's perspectives. On 9 July, the group met again to discuss the secretariat's research into the link between the LTF Communication and bank business models. In the Autumn, Members shared feedback on Finance Watch's draft position paper on LTF and the group met again on 21 October to agree improvements to the paper.

Socially responsible investing (SRI) This group met only once, on 26 February to present and discuss a Finance Watch study on SRI. The call looked at the SRI-related incentives available to asset-managers and banks in making investment decisions and monitoring the SRI impact of those decisions, looking at legislative measures such as PRIIPs, non-legislative codes and standards, and voluntary industry initiatives. These were further developed in an expert symposium organised in London on 21 May, attended by working group members, other civil society and asset management representatives, which resulted in a report and recommendations.



▲ Expert symposium in London, 21 May 2014

Members list

As of 31 December 2014 (42 Member Organisations and 30 Individual Members)

Finance Watch is a civil society platform. Our legitimacy comes from a broad membership of civil society organisations representing EU citizens via consumer groups, housing associations, unions, NGOs, financial experts and academics. Members can join as organisations or as expert individuals.

MEMBER ORGANISATIONS

BELGIUM

- Centre national de coopération au développement (CNCD-11.11.11)
- Centrale Nationale des Employés (CNE)
- Réseau Financement Alternatif

DENMARK

- Danish Confederation of Trade Unions

EU

- Austrian Federal Chamber of Labour - Brussels Office
- Bureau Européen des Unions de Consommateurs (BEUC)
- Housing Europe
- European Trade Union Confederation (ETUC)
- Friends of the Earth Europe
- Oxfam International
- Rosa Luxemburg Foundation, Brussels Office
- Solidar
- Transparency International - EU Office (TI-EU)
- UNI Europa

FRANCE

- Attac France
- CCFD-Terre Solidaire
- Confédération Générale du Travail (CGT)
- Fédération CFDT des Banques et Assurances
- Fédération Européenne des Cadres des Établissements de Crédit (FECEC)
- Fédération nationale de la finance et de la banque (FFB CFE-CGC)
- FIDH
- Institut Veblen pour les réformes économiques
- Secours Catholique-réseau mondial Caritas
- UNSA Banques et Assurances

GERMANY

- Deutscher Gewerkschaftsbund (DGB)
- Foodwatch
- Heinrich Böll Stiftung
- ver.di (Vereinte Dienstleistungsgewerkschaft)
- VZBV (Verbraucherzentrale Bundesverband)
- Weltwirtschaft Ökologie & Entwicklung (WEED)

ITALY

- Fondazione Culturale Responsabilita Etica

NORWAY

- Norwegian Confederation of Trade Unions

SPAIN

- Fundacio Seira

SWEDEN

- Nordic Financial Unions (NFU)

SWITZERLAND

- Observatoire de la Finance

THE NETHERLANDS

- Stichting Onderzoek Multinationale Ondernemingen (SOMO)

UNITED KINGDOM

- ShareAction
- New Economics Foundation (NEF)
- Positive Money
- TUC/Unite
- Global Justice Now (formerly World Development Movement)

USA

- Natural Resource Governance Institute (formerly Revenue Watch)

INDIVIDUAL MEMBERS

BELGIUM

AYADI Rym
THYS Robert

FRANCE

CHAVAGNEUX Christian
COLIN Gregori
CRINETZ Michel
GEIGER Rainer
KLEINKNECHT Patrick
LICHTEROWICZ Pierre
LIGER-BELAIR Philippe
LOUMEAUX Philippe
MONNET François-Marie
PERRUT Dominique
REVALIER Pierre

SCIALOM Laurence
SERVE Stéphanie
SIMON Claude

GERMANY

CALVI Stefan
FRIEDERICHS Karl
KÖHLER Wolfgang
LENZ Rainer
MARTIN Pablo
REINERS Suleika
SCHUMANN Harald
SCHWABE Hans-Joachim

SWEDEN

KELLERMANN Christian

SWITZERLAND

BOHR Bärbel
CHESNEY Marc
SANTI Michel

UNITED KINGDOM

GRIFFITH-JONES Stephany
LINES Thomas

We were pleased to welcome two new Member Organisations in 2014: CNCD-11.11.11 is a Belgian development NGO with a mission to challenge national and international political bodies on their responsibilities for development co-operation and international solidarity; and Positive Money is a London-based campaign group working to democratise money and banking so that it works for society and not against it.

The standard membership fee is set at €1,000 per year for Member Organisations and €80 per year for Individual Members.

Funding

Finance Watch is independently funded by charitable foundations, public grants, membership fees and donations from the general public.

The financial industry spends **hundreds of millions of euros** a year on lobbying in order to influence and water down financial regulation. The results can be seen in how little the financial system has fundamentally changed since the financial crisis, despite the profoundly negative impact that the crisis had on the lives of millions of EU citizens.

Finance Watch has an annual budget of around €2m to fight back on behalf of citizens. To make this funding sustainable, we need to reduce our reliance on a few significant funders.

If you are reading this and share our goal of making finance serve society then please consider becoming a donor – large or small as every euro helps - or helping us to find new funders to support our mission.

“So that we can exercise our political role by voting, it is necessary that Finance Watch ‘belong’ to the greatest possible number of citizens.”

François Dupont, Friend of Finance Watch, France

The financial industry spends more than €120 million per year on lobbying in Brussels and employs more than 1,700 lobbyists, according to a survey by CEO, AK Europa and ÖGB (The Firepower of the Financial Lobby, April 2014). The survey was based on the most conservative numbers and the actual numbers are likely to be far higher.

As of 31 December 2014, Finance Watch’s financial resources came from the following sources:

→ the European Union, operating grant for 2014 administered by the European Commission under a “Preparatory action - Capacity building of end-users and other non-industry stakeholders for Union policy making in the area of financial services”. The grant is limited to a maximum 60% of Finance Watch’s total eligible costs. The preparatory action is a follow-up to funding issued in previous years through an EU pilot project under the same name,¹

→ Adessium Foundation, a public benefit organisation based in the Netherlands that sponsors projects to further integrity, justice and a balance between people and nature,

→ Fondation Charles Léopold Mayer pour le Progrès de l’Homme, a private Swiss grant-making foundation that supports activities which contribute to human progress through science and social development,

→ Better Markets, a US non-profit group that advocates public interest outcomes in financial regulation,

→ Caisse des Dépôts, a French publicly owned, public interest bank,

→ Friedrich-Ebert-Stiftung (conference partner), a German private, non-profit cultural foundation committed to the ideals and values of Social Democracy

→ Open Society Initiative for Europe, an initiative of the Open Society Foundations (OSF) that aims to contribute to more vibrant and legitimate democracies in the European Union by working with a wide range of civil society actors and strengthening less central voices.

→ donations from private individuals,

→ membership fees,

→ conference registrations.

For a breakdown of these contributions, please see the financial report on page 44.

We are grateful to all our funders, including the members of the public who supported our work in 2014. Our independence and standing as a public interest advocate are only possible because of your support.

Thank you!

INDEPENDENCE

All funding above € 10,000 must be reviewed by the Committee of Transparency and Independence and approved by the Board to ensure that it is unconditional, does not create any conflict of interest with Finance Watch’s objectives, does not threaten the independence of Finance Watch’s positions, and complies with money laundering standards. Finance Watch does not accept money from political parties.

¹ - This disclosure does not imply any endorsement by the European Union or its institutions of Finance Watch’s work, which remains the sole responsibility of Finance Watch itself.

Finance Watch in brief

What we do?

Making finance serve society

- we advocate public interest outcomes in financial regulation
- we build the capacity of civil society to act as a counterweight to the financial lobby

The goal: a sustainable banking system and a financial system built around investing not betting.

For democracy to thrive, decision-making must be plural, inclusive and reflect the common good. This requires that no single group of actors or interests can dominate political discourse, and that public interest outcomes are clearly articulated and separated from private interests.

Who are we?

A network of more than 70 civil society members, including consumer groups, housing associations, trade unions, foundations, think tanks, environmental and other NGOs, and individuals with relevant expertise (full list on page 14)

A secretariat of 14, all with professional backgrounds in banking and finance or other areas relevant for our work (see page 10)

Around 8,500 Friends of Finance Watch from the general public around Europe.

How we work?

Members approve which topics Finance Watch should work on when they meet in General Assemblies. Members and secretariat staff also meet in Working Groups to discuss policy issues and plan actions.

The secretariat's policy analysis team carries out research in collaboration with Members, this expertise is shared with Members and policymakers.

Using this expertise, Members and secretariat staff coordinate their advocacy towards EU and national policymakers. This includes meeting policymakers and speaking at public events.

Members and secretariat staff coordinate their campaigns and communications towards the general public, and publications are converted into non-technical materials for the general public.



HOW WE WERE FORMED

The regulatory activity that followed the global financial crisis led to a surge in private interest lobbying from the financial industry. Finance Watch was created as an independent public interest advocate in 2011 in response to a call from MEPs, who feared that an imbalance in lobbying could lead to undemocratic outcomes.

2008

Global financial crisis, Lehman Brothers collapses

2009

G20 leaders agree post-crisis financial reform agenda, EU begins extensive programme of regulation and re-regulation, Financial industry lobby increases

2010

June group of 22 cross-party MEPs launch a petition, "Call for a finance watch"

November The call gathers 189 signatures from MEPs and national politicians

December start of the project phase to create a public interest advocacy group

2011

April 28 Finance Watch AISBL registered in Belgium as an *association internationale sans but lucratif* (international non-profit association)

June 30 founding Members hold their first General Assembly in Brussels, elect the board and appoint Thierry Philipponnat as Secretary General

September secretariat is hired and Finance Watch becomes operational

2012

Membership grows to 70 (42 organisations and 28 individuals)
Major files: CRD IV and MiFID II

2013

5th anniversary of Lehman Brothers' collapse and Change Finance! Campaign,
Major files: MiFID II, Bank Structure Reform, Banking Union, PRIIPs

2014

Major files: Bank structure reform, Banking Union, TTIP, PRIIPs, MiFID II
European Parliament elections and renewal of the European Commission
Office move, governance review, Christophe Nijdam appointed Secretary General from 1 January 2015

Finance Watch's vision

Finance Watch's motto is "making finance serve society"

Our vision is for a sustainable financial system that serves society and is founded on investing and not betting.

We would like to see:

- a banking system that is resilient and effective and that directs credit to productive use without extracting economic rents or transferring credit risks to society, and
- financial markets that encourage productive investment in the real economy and discourage excessive or harmful types of speculation.

Before either of these can happen, our leaders and civil society must act together to break the intellectual capture and dominance of the powerful financial industry lobby.

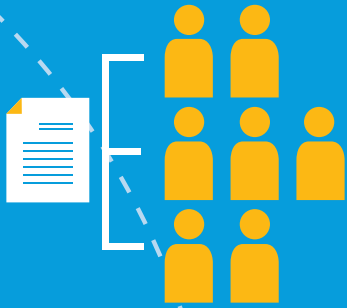
Finance Watch is working to share this vision with the public, regulators, political leaders, academics, think-tanks, the media, economists, and the bankers and business leaders of tomorrow.

We see the following measures as essential steps towards realising our vision:

- Reduce the overall level of financialisation of society.
- Build a resilient banking system that serves society and is not founded on moral hazard (including under a Banking Union).
- Raise awareness of the policy implications of credit and money creation by the banking sector.
- Build a financial system geared towards sustainable investing.
- Limit excessive or harmful speculation.
- Channel savings into sustainable long-term investments in the real economy.
- Regulate the financial sector effectively.
- Protect the interests of the general public.
- Restore ethical behaviour to the actors of the banking and financial sectors.







DOSSIER ACTIVITY

FINANCE WATCH WORKED
ON THE FOLLOWING POLICY
DOSSIERS IN 2014:

- P 20** Bank Structure Reform*
- P 23** Long term financing*, ELTIFs*
and Capital Markets Union
- P 26** MiFID II and MiFID Level 2*
- P 28** PRIIPs*
- P 29** Better Regulation*
- P 30** Banking Union and BRRD*
- P 32** Shadow Banking / MMFs*
- P 34** Securities Financing
Transactions (SFT)
- P 36** TTIP*
- P 38** Change of institutions
- P 40** Other interventions*

* Topics mandated for 2014
by the General Assembly 27 November 2013.



Bank Structure Reform

CONTEXT

European and national level initiatives have been presented to reform the structure of banks, including the possible separation of deposit-taking from trading activities.

"I believe there are still doubts regarding whether the largest and most trading-intensive banks in Europe can be rapidly resolved in the midst of a systemic crisis. If the structure of a bank has been simplified ex-ante, it is easier to impose resolution measures on it also in times of severe stress."

Erkki Liikanen,
speaking at ECON hearing,
2 December 2014



LEGISLATIVE ACTIVITY

On 29 January 2014, the Commission published two legislative proposals, one on structural measures to improve the resilience of EU credit institutions (bank structure reform, or BSR) and one on securities financing transactions (see page 34).

This followed the October 2012 recommendation for a form of EU bank ring-fencing by the Commission's High-Level Expert Group (HLEG) led by Erkki Liikanen, and the adoption in 2013 of a ring-fencing law in the UK and of weaker national reforms in France and Germany.

The January 2014 proposal applies only to the largest and most complex EU banks and would: 1. ban proprietary trading in financial instruments and commodities from 1 January 2017, 2. grant supervisors the power and, in certain instances, the obligation to require the transfer of other high-risk trading activities (such as market-making, complex derivatives and securitisation operations) into separate legal trading entities within the group ("subsidiarisation") from 1 January 2018.

EU finance ministers issued a statement on 2 April opposing the separation of market-making activities.

In April, the IMF published new research estimating the size of implicit subsidies to "too big to fail" (TBTF) banks at up to \$300 billion in the euro area for 2012. In June, the European Systemic Risk Board's (ESRB) Advisory Scientific Committee published a report questioning the size and structure of the EU's banking sector. The European Economic and Social Committee (EESC) published a mainly positive opinion on the BSR proposal in July. In November, the ECB published a more restrained opinion with some technical amendments.

In the summer, the Parliament's new ECON Committee appointed Gunnar Hökmark (EPP, Sweden) as rapporteur, and shadow rapporteurs were appointed in September.

The FSB published a report shortly before the November G20 summit in Brisbane on the differences between bank structure reforms in different parts of the world. The FSB, together with the IMF and OECD, undertook to report again in 2016.

ECON held a public hearing on 2 December, at which Finance Watch spoke. Parliament rapporteur Hökmark submitted his draft report in late December, substantially weakening the proposal.

The Commission chose not to include BSR in a list of proposals to be withdrawn under the Better Regulation initiative, when announcing its 2015 work programme on 16 December.

Institutional negotiations on BSR continue into 2015.

CALENDAR

Q2 2015

Continued negotiations between ECON rapporteur and shadow-rapporteurs

21 January 2015

Amendments deadline for ECON report

18 December 2014

Draft ECON report circulated by Parliament rapporteur Gunnar Hökmark (EPP, Sweden)

16 December 2014

BSR not on a list of Commission proposals to be withdrawn
[Finance Watch Webinar "What is investment banking?"](#)

2 December 2014

Finance Watch participates in ECON public hearing on the BSR proposal

27 November 2014

[Finance Watch letter to Financial Times urging Commission not to withdraw BSR proposal](#)

19 November 2014

European Central Bank opinion on Bank Structure Reform

27 October 2014

FSB report on Structural Banking Reforms for November 2014 G20 Brisbane Summit

10 September 2014

[Finance Watch note "Too-big-to-fail in the EU"](#)

22 July 2014

[Finance Watch Policy Brief "Structural reform to refocus banks on the real economy"](#)

9 July 2014

European Economic and Social Committee (EESC) opinion on BSR proposal

2 June 2014

ESRB Advisory Scientific Committee report ["Is Europe overbanked?"](#)

2 April 2014

ECOFIN meeting, finance ministers' statement opposing separation of market-making activities

31 March 2014

IMF Global Financial Stability Report estimates TBTF funding subsidy for Eurozone banks at \$300bn

21 March 2014

[Finance Watch educational unit "Understanding Finance #1 - Splitting megabanks?"](#)

24 February 2014

[Finance Watch Webinar "Why separate banking activities?"](#)

30 January 2014

[Finance Watch press release "Bank structure proposal has right objectives but fragile mechanism"](#)

29 January 2014

Commission publishes legislative proposals on bank structure reform (BSR) and securities financing transactions (SFT), called the Barrier proposals

2013

France and Germany adopt weak national laws on bank structure reform and Belgium announces plans. UK adopts ring-fencing law

2 October 2012

HLEG presents its final report to the Commission

“Utility banking must be separated from investment banking.”

The Archbishop of Canterbury
(and former derivatives trader),
Justin Welby

FINANCE WATCH'S VIEWPOINT

Some bank structures can embed funding subsidies that distort and damage the market economy.

Megabank structures, for example, allow the funding benefits of implicit state support to be extended to investment banking, subsidising its cost of capital and leading to the overdevelopment of risky trading activities and systemic risk.

Separating trading from credit at such banks would cut this link and is a vital step in ending too-big-to-fail banking. It would help banks to focus more on serving the real economy and give credibility to the EU's plans for dealing with large banks in trouble, reducing the chances of further taxpayer bail-outs. Existing measures such as CRD, SSM, BRRD and SRM, while positive, are not enough to protect taxpayers because they have a micro-prudential focus (they make individual institutions

more robust) whereas BSR has more of a macro-prudential focus and concentrates on the systemic risks posed by large trading-oriented banks (risk of joint default, risk of contagion).

In our view, prevention is better than cure. To achieve its goals, we think BSR must separate substantially all trading - including market making and derivatives - from deposit banking activities.

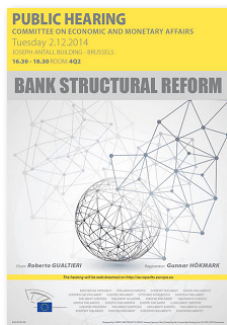
While the public benefits of this measure are well established, BSR is strongly opposed by the banking lobby and by certain member states protecting national champion banks.

A successful BSR would focus banks on serving the economy and help capital markets to be competitive and subsidy-free. This in turn should support the EU's ambition for a capital markets union.

Why should citizens care?

Citizens pay three times over for financial firms that are too-big-to-fail: in good times through distorted markets and misallocation of resources, in bad times through taxpayer bail-outs, and most severely through deeper recessions after a financial crisis. Citizens get very little in return. Opinion polls show that a large majority of citizens in different EU countries would like to see smaller, less powerful and properly separated banks.

If BSR is not effective, the next financial crisis could be as painful for citizens as the last and undermine faith in the democratic process. Additionally, the economy may not get enough of the types of finance it needs for stable growth.



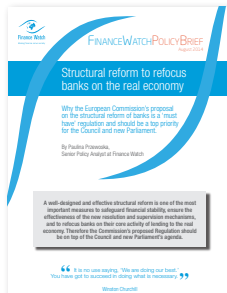
Finance Watch speaks at the ECON Committee hearing on Bank Structure Reform, 2 December 2014



“Understanding Finance #1 - Splitting megabanks?” multimedia dossier, 21 March 2014



“Too-big-to-fail in the EU” Policy Brief, 10 September 2014



“Structural reform to refocus banks on the real economy” Policy Brief, 22 July 2014

ACTIONS OF FINANCE WATCH

On the day the Barnier proposal on bank structure was published we hosted a conference call with Members and issued a press release the following day with our first impressions of the text.

We hosted a public webinar on **24 February 2014** entitled “*Why separate banking activities?*” and published a 12 page multimedia dossier “*Understanding Finance #1 - Splitting megabanks?*” on 21 March in English, French and German, containing a non-technical overview on the issue of bank separation and explaining Finance Watch's position for the wider public.

For policymakers, we published on **22 July** a 10 page Policy Brief “*Structural reform to refocus banks on the real economy*” to help draw the link between BSR and the jobs and growth agenda.

Acting Secretary General Benoît Lallemand spoke at a European Economic and Social Committee study group on “*Reform of the structure of EU banks*” on **10 April**. The EESC published a positive opinion on BSR three months later.

“...to ensure that EU banks face a level field on European and global markets, operating free of unfair distortions of competition”

Extract from Guiding Principle 3 of the European Banking Federation



For incoming MEPs, on **10 September** we published a 12 page overview, “*Too-big-to-fail in the EU*”, of the various EU financial regulations relating to too-big-to-fail and our assessment of what remains to be done.

In November, we urged the Commission to maintain support for BSR following calls from the financial industry to withdraw the proposal. This was supported by a letter in the Financial Times on 27 November and an open letter to outgoing Commissioner Michel Barnier the previous month.

Senior analyst Paulina Przewoska spoke at a public hearing on the Structural Reform of Banks at the Parliament’s ECON Committee on **2 December**. Before the hearing, we coordinated with FW Members on publications, letters to MEPs and media contacts to encourage MEPs to support a strong reform.

We hosted another public webinar on **16 December**, “*What is investment banking?*”, and started technical work on the Hökmark report ahead of the amendments deadline on **21 January 2015**.

Relevant materials were tweeted throughout the year under the hashtag #SplitMegaBanks. Finance Watch was mentioned in 32 press articles about banks structure and published eleven blogs and external articles about BSR during the year.

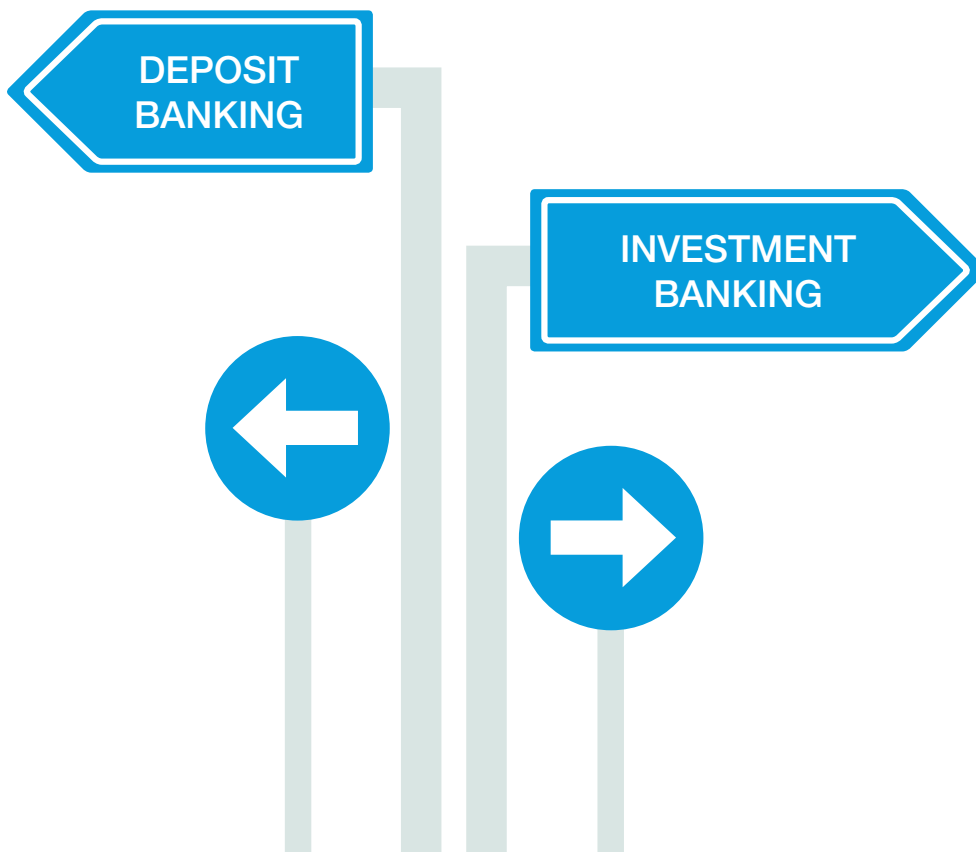
OUTCOMES

The Commission’s original proposal has the right objectives (among others: more competition between banks, more credible resolution of banks in trouble, less misallocation of resources, fewer conflicts of interest) but a fragile mechanism, such as potentially giving supervisors too much discretion to avoid separating banks. The text has since come under sustained attack from some member states and some political parties seeking to weaken it, creating doubts about its final effectiveness.

Public and academic support for bank separation remains strong and the OECD and IMF published further evidence during the year that adds to the case for structural reform. The ECB and FSB gave largely neutral responses on the reform.

BSR survived a bank lobby call for it to be withdrawn as part of the new Commission’s “clearing the decks” exercise but it continues to face strong opposition from several EU member states and the Parliament rapporteur, who are acting to weaken the proposal.

The proposal faces further challenges to its progress and content in 2015, both in Parliament and Council.





Long term financing, ELTIFs and Capital Markets Union

CONTEXT

The Commission's Long-Term Financing initiative (LTF) was a wider set of initiatives to create growth and jobs in the EU. One of the legislative proposals presented by the outgoing Commission creates a new legal investment instrument, the European Long-term Investment Fund (ELTIF). These funds should help investors to put money into companies and long-term projects

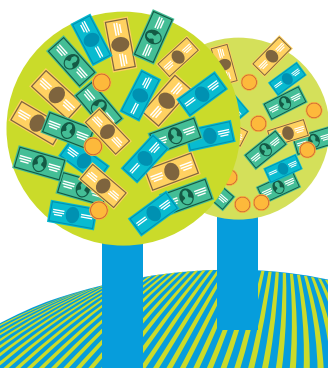
Towards the end of 2014, the existing LTF work essentially folded into the new Capital Markets Union (CMU) project of the incoming Juncker Commission. The Capital Markets Union promotes non-bank lending and foresees greater involvement of institutional investors in financing the real economy.



LEGISLATIVE ACTIVITY

In 2013, the IMF, OECD, FSB and other international institutions issued reports on factors affecting the availability of financing for long-term investment. This was in response to commitments made at the G20 Summit in Mexico in 2012. The European Commission contributed to this debate with a Green Paper on LTF published in March 2013. After a public consultation, the Commission published a Communication on long term financing in March 2014 with wide-ranging proposals in 15 action areas, including the role of development banks, securitisation, ELTIFs and tax and accountancy measures, among other things.

The first legislative proposal to emerge from this workstream was the Commission's draft regulatory framework for ELTIFs, published in June 2013. Legislative work on the proposed regulation was interrupted by the EU elections but lawmakers eventually reached an agreement in November 2014. The new Commissioner for Financial Stability, Financial Services and Capital Markets Union, Jonathan Hill, launched a Green Paper and consultation on CMU on 18 February 2015, together with consultations on securitisation and the Prospectus Directive. The Green Paper on CMU identifies five early priorities, including implementing the ELTIF regulation, developing high quality securitisation, standardised credit information on SMEs, private placement, and a review of the Prospectus Directive to ease listing requirements for smaller companies. Commissioner Hill is expected to present further details in Q3 2015.



CALENDAR

Q3 2015

Commission expected to present further Capital Markets Union initiatives

13 May 2015

Finance Watch response to EC consultation on framework for simple, transparent and standardised securitisation

13 May 2015

Finance Watch response to EC green paper on CMU

10 March 2015

Parliament endorses ELTIF Regulation agreement in plenary

18 February 2015

Finance Watch press release expresses scepticism about key parts of CMU Plan for sustainable growth

18 February 2015

Commission publishes Green Paper on CMU, launches consultations on securitisation and the Prospectus Directive

15 December 2014

Finance Watch position paper on long term financing, securitisation and securities financing

26 November 2014

Triologue agreement on ELTIF Regulation

15 July 2014

President Juncker announces Capital Markets Union as one of the three Unions in his acceptance speech to Parliament

17 April 2014

Parliament plenary vote on ELTIF Regulation

27 March 2014

Commission Communication on Long-Term Financing

26 February 2014

Parliament approves its response to LTF Green Paper

26 June 2013

Finance Watch responds to Commission consultation on LTF Green Paper

26 June 2013

Commission publishes proposal for ELTIF Regulation

25 March 2013

Commission publishes Green Paper on LTF
Legislative action

Long term financing, ELTIFs and Capital Markets Union



FINANCE WATCH'S VIEWPOINT

First, contrary to the consensus narrative, the crisis was not a banking crisis, but started as a shadow banking crisis, and showed that traditional banks, funded by retail deposits and with non-political governance, were more robust and focused on the real economy than some investment banking activities that required a bailout. The CMU is the promotion of shadow banking and of the investment banking model, yet in our view, the lesson from the crisis is that we need more traditional and local banking.

Secondly, we also challenge the idea that bank lending has to decline. European banks have increased their capital and are in the process of cleaning their balance sheets. They are therefore now in a better position to lend. Some banks may choose to allocate their capital to more profitable activities but, if anything, this only strengthens the case for separating universal banks in order to refocus them on their core mission of lending.

Thirdly, and most importantly, it is not clear that CMU will provide the type of stable funding that is needed. We always hear about the need to increase the availability of credit, but we only talk in terms of quantity of credit, not quality. Yet, one lesson from the crisis is that access to funding is not an issue in normal times, but only in times of stress. Therefore, what is needed is not just more credit in general, but more stable credit that does not withdraw quickly in times of stress.

In this respect, increasing the reliance of the economy on capital market financing is a double-edged sword: while it might increase the supply of credit in good times, capital markets financing is more pro-cyclical than traditional bank lending, being highly dependent on investor's greed and fear, and can decline very quickly in times of stress. This is not the kind of stable financing that European companies need to grow.

CMU is also likely to make our financial system more fragile and to increase moral hazard. Non-bank

lending is a more collateral-intensive activity and a revival of securitisation will create more financial securities that financial institutions lend to one another as collateral for short term lending. Yet the crisis has shown that this form of financing was very fragile, very pro-cyclical and increased interconnectedness through the webs of contracts between institutions, thereby increasing the risk of domino effects in our financial system.

Transferring risks from banks to pension funds, as is currently promoted, might also create additional moral hazard. If tomorrow a large pension fund runs into trouble, it is quite likely that there will be a political willingness to bail it out with taxpayers' money.

Additionally, pushing retail savings currently in bank deposits towards capital markets is also dangerous: retail deposits do finance the real economy as they contribute to the stable funding of banks. A reduction in bank deposits would increase banks' reliance on wholesale funding with the consequences that we know.

The higher pro-cyclicality of non-bank lending raises a moral question since it means you need an entity that will buy when everyone wants to sell, yet shadow banking does not have explicit and direct access to public safety nets and the crisis has shown the ineffectiveness of private backstops. This means that we must decide between extending access to public safety nets to shadow banking, which would increase moral hazard, or alternatively shrinking the size of – and not promoting – shadow banking.

Lastly, the idea that enough has been done in terms of regulation and that we should now focus on short-term growth is misleading and risky. While much regulation has been put in place since the crisis, most of it is focused on making individual banks more robust but very little has been done to make the financial system as a whole more robust and stable. This is indeed very different: making the system more robust requires, for example, ensuring that financial institutions do not run

into trouble at the same time. If one medium-sized bank runs into trouble, this is not a threat to the financial system as, for example, other banks can buy the troubled bank and ensure continuity of service. If, however, most banks experience troubles simultaneously as happened during the crisis, governments need to intervene to bail them out with taxpayers' money. As long as this is not addressed, we will not have reduced the risk of future crises, which is a pre-requirement for sustainable growth.

Why should citizens care?

Promoting the development of capital markets in Europe might create an even more volatile financial system that is more vulnerable to domino effects.

The suggestion that enough has been done in terms of financial regulation and that the European Commission should now focus on boosting short-term growth is adventurous: as long as systemic risks have not been comprehensively addressed, we will not truly have reduced the risk of future crises and the related costs for the economy and citizens' lives.

We are also not convinced that CMU in itself will create significant growth and jobs. The policy response focusses on increasing the supply of credit, yet the current lack of growth comes for a large part from a lack of demand, itself linked to structural factors such as the rise of inequalities over the last decades that have reduced the purchasing power of the low and middle classes. As a recent report from the OECD put it "policies that help to limit or reverse inequality may not only make societies less unfair, but also wealthier."

Lastly, privatising the funding of infrastructure, a possible outcome of CMU, might lead in some cases to excluding poorer citizens from accessing essential services. It might also increase the ultimate cost of infrastructure investments for taxpayers while shifting the burden to future generations.



ACTIONS OF FINANCE WATCH

In early 2014, we advised Parliament negotiations on the ELTIF Regulation, suggesting them not to allow the transfer of funds between ELTIF and non-ELTIF compartments of Alternative Investment Funds (to avoid creating a loophole in the regulation of hedge funds) and to not allow retail investors to invest directly in ELTIFs, but rather to use UCITS as a wrapper to limit the exposure to a single ELTIF and to ELTIFs in general, and to help consumers benefit from the liquidity and transparency requirements in UCITS.

We also pushed to reduce the overly positive assessment of securitization as a mechanism for economic recovery in the Parliament's non-legislative report responding to the Long Term Financing Green paper.

Our work on CMU in 2014 was mainly research based. On **15 December 2014**, Finance Watch published a 98 page position paper on long term financing, securitisation and securities financing, entitled "*A missed opportunity to revive "boring" finance?"*" critically examining the assumptions behind the Commissions approach to capital market financing, analysing in depth some of the systemic risks that it might introduce, and formulating policy recommendations. The paper was accompanied by a cartoon published in several languages.

This work paves the way for a strong advocacy programme in 2015, starting with consultation responses to the Commission and other bodies.

OUTCOMES

The few legislative initiatives announced in the **February 2015** CMU Green Paper are still at an early stage. Further legislative initiatives may be taken, for instance to stimulate securitisation. There is strong momentum to revive securitisation but many details of how the riskier elements will be regulated remain to be agreed. Finance Watch's position paper on CMU received good reviews and was quoted in several academic peer reviewed publications. While this topic has yet to reach the non-specialized media and general public, awareness of the potential issues is increasing and several prominent academic voices have started echoing Finance Watch's concerns.

Finance Watch cartoon on plans to promote high quality securitisation. Also published in French, German and Polish.



MiFID II and MiFID Level 2

CONTEXT

The EU's Review of the Markets in Financial Instruments directive (MiFID II/MiFIR) is a landmark reform that aims to make financial markets more efficient, stable and transparent. Technical standards are now being defined at Level 2 and Member States must implement the part of the package that is contained in the Directive (MiFID II), so that all rules can apply as of 2017.

MiFID II/MiFIR covers market structure reforms, transparency (dark and over-the-counter trading), high-frequency trading (HFT), commodity derivative speculation and investor protection, among other topics.



LEGISLATIVE ACTIVITY

The Level 1 text of MiFID II/MiFIR introduces transparency requirements for a broad range of asset classes; the obligation to trade derivatives on-exchange; restrictions on algorithmic and high-frequency-trading and new tools to supervise and monitor trading in commodity derivatives. It will also strengthen protection for retail investors through transparency on the use of commissions; conditions for the provision of independent investment advice; stricter organisational requirements for product design and distribution; product intervention powers; and the disclosure of costs and charges.

Two and half years after it was proposed, the Level 1 text for MiFID II/MiFIR was finalised in May 2014 ahead of the elections, as work on the Level 2 implementation began.

The Level 2 work involves supplementing the Directive and Regulation with a large number of "technical" measures. Many of these decisions seem technical but are very political, as the calibration of Level 2 measures determines the impact that the rules will have in practice. From the perspective of Finance Watch, the areas where the political agreement is most at stake are the Delegated Acts on consumer protection and the Regulatory Technical Standards for commodity derivatives. On 22 May, ESMA published a discussion paper outlining its thinking on the Technical Standards and a consultation paper on a set of draft rules. ESMA held three public hearings in Paris on 7-8 July on these, which continue under negotiation into 2015.



ESMA open hearing on MiFID II Level 2, 19 February 2015.

CALENDAR

3 January 2017

Full application of rules

19 March 2015

Finance Watch press release calls on ESMA to revise its proposal on commodity derivatives

19 February 2015

Finance Watch attends ESMA Level 2 hearings in Paris

2 March 2015

Finance Watch responds to ESMA consultation on MiFID II/MiFIR Technical Standards

6 February 2015

Finance Watch press release calls on Commission to ignore industry-biased ESMA advice on inducements

19 December 2014

ESMA publishes consultation paper on Technical Standards

23 July 2014

Finance Watch and BEUC press release on inducements and consumer protection

7-8 July 2014

Finance Watch attends ESMA Level 2 hearings in Paris
Finance Watch publishes responses to May 2014 ESMA papers

12 June 2014

Publication in Official Journal and formal entry into force

22 May 2014

ESMA publishes consultation paper on Technical Advice for Delegated Acts
ESMA publishes discussion paper on Technical Standards

Q2 2014

Start of ESMA's drafting of Technical Standards (deliverable by July 2015) and Technical Advice on Delegated Acts.

11 March and 15 April 2014

Council endorsement, Parliament plenary approved the agreement

January-February 2014

Technical dialogues to draft interpretation guidance in Recitals

15 January 2014

Finance Watch press release to welcome the agreement and call for strong Level 2 measures

14 January 2014

Political agreement among EU institutions

20 October 2011

Commission publishes proposals to revise MiFID and introduce MiFIR



FINANCE WATCH'S VIEWPOINT

Financial markets have evolved away from their primary role of helping to allocate resources. With MiFID Level 2, we have focussed our advocacy on commodity derivatives, high-frequency trading, and investor protection.

The popularity of commodity funds as an investment has led to speculators dominating commodity derivative markets that help to determine the price of food and other essential goods. We back the use of “position limits” to restrict the amount of speculation allowed and make food, energy and other commodity prices more secure, but they must be calibrated correctly and set at the right level to be effective.

The rise of high frequency trading techniques has opened the door to abusive trading strategies, in which some high frequency traders extract profits from legitimate users of the

market, such as people saving for their pension as well as from institutional investors. We support the introduction of tools for regulators to control this, such as a higher minimum tick-size regime to increase the smallest price movement for financial instruments, limiting the potential for gaming. Here again, the actual calibration of the tick size is crucial.

In the area of investor protection, we feel that retail investors should be able to expect their financial advisors to have their best interests at heart when recommending investment products to buy, which means financial advisors should be paid in a way that does not incorporate potentially harmful biases. In the absence of a European ban on inducements, we insisted that clients should know that their financial advisor is being paid for selling specific products.

Why should citizens care?

The economy and society at large benefit when financial markets allocate resources well and at a low cost. If market prices become unreliable, then financial resources may be allocated poorly and in some markets the supply of essential commodities used for food and energy production could be disrupted. Further, if the costs of financial intermediation are too high or if some types of trader are permitted to exploit others in the market, it is much harder for people to save for their future. Similarly, people's long term financial security will suffer if retail investors are led towards unsuitable or overly expensive products as a result of sales-biased advice.



ACTIONS OF FINANCE WATCH

Finance Watch acknowledged the political agreement on the Level 1 text with a press release in **January 2014** calling for strong Level 2 implementation. The team argued successfully against a late attempt to water down the position limits regime through linguistic changes in the recitals of the directive during technical negotiations in the weeks following the political agreement.

As work on Level 2 got underway, we published our responses to ESMA's MiFID II/MiFIR Discussion Paper and Consultation Paper on **7 July**, the first of two days of public hearings held by ESMA in Paris.

Finance Watch staff and some of its Members (BEUC, Oxfam International and SOMO) attended these hearings, providing much needed civil society representation among the 200 or so industry representatives at each hearing. This was important to show that civil society is now equipped to engage in those technical discussions, and to make sure that the public interest provisions introduced in the law (Level 1) are effective when translated into technical rules (Level 2). The sessions we attended covered market issues (market structure and high-frequency trading), investor protection, and commodity derivatives (position limits).

Two weeks later, Finance Watch and BEUC both issued press releases to support ESMA's commitment on investor protection, commenting on the rules about fees and commissions paid to those giving investment advice.

In August 2014, Acting Secretary General Benoît Lallemand became a member of ESMA's Secondary Markets Standing Committee, which acts as a Level 2 consultative group and is heavily dominated by industry representatives. In the autumn, we worked with the new team of MEPs responsible for the Level 2 scrutiny to make sure that our points were raised in internal meetings and discussions with the Commission and ESMA.

We also started preparing our campaign in response to the draft Technical Standards as proposed by ESMA on **19 December 2014**.



OUTCOMES

A political agreement on MiFID II was reached at the dialogue on **14 January 2014** in Strasbourg. At the time of writing, the Level 2 outcomes are unknown. However, the Level 1 compromise puts into practice several of Finance Watch's recommendations.

On HFT, the introduction of a minimum tick size regime should improve market order and integrity, provided it is properly calibrated at Level 2. HFT will be more transparent to supervisors and academics,

thanks to the flagging of orders and the disclosure of algorithms.

The introduction of position limits on commodity derivatives was a standout accomplishment, achieved despite fierce opposition from the financial industry and thanks to a sustained campaign from NGOs including several Finance Watch Members. Their ultimate success will depend on how position limits are calibrated at national level, subject to Level 2 guidance.

The Organised Trading Facility platform will not allow for trading of equities, which removes the risk of most equity trading moving away from the most regulated platforms (traditional exchanges). On derivatives, whether MiFID II provides incentives for over-the-counter trading to move onto regulated platforms will depend on the calibration of the “volume cap”.

On retail investor protection, MiFID II was a missed opportunity to introduce an EU-wide ban on inducements paid out to financial intermediaries, meaning that some consumers will continue to be exposed to biased financial investment advice. However, those who declare themselves independent advisors will have to refrain from accepting inducements, those who are not independent must clearly state so and member states can introduce or maintain existing national inducement bans.



PRIIPs

CONTEXT

Consumers should be able to compare financial investments and understand what they invest in. To help them do this, a Regulation on Packaged Retail and Insurance-based Investment Products (“PRIIPs”) was approved in April 2014. The new European rules require product manufacturers to draft a short information document which must be given to consumers before they invest.



FINANCE WATCH'S VIEWPOINT

Finance Watch believes that retail investors should not be offered unsuitable investment products. We made several recommendations for the KID:

- enlarging the scope so that packaged products, insurance products, pension products, and even shares and bonds would require a KID;
- introducing a health warning (“complexity alert”) to reduce miss-selling cases and encourage more suitably-designed products. The purpose of the health warning is to alert retail investors when structured products embed features known to have detrimental effects;
- ensuring that the underlying methodology and disclosure format of the summary risk indicator enable retail investors to understand the risks attached to the product;
- improving disclosure of fee structures. Fees can be disclosed



LEGISLATIVE ACTIVITY

In mid-2012, the European Commission proposed a regulation to boost consumer confidence in the financial sector by making information about structured products more comparable and understandable via a standardised key information document (or “KID”).

Lawmakers reached a compromise agreement on the Level 1 text of a regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs) on 1 April 2014.

The Commission initiated the Level 2 process in July 2014 with a request to EIOPA for technical advice on possible delegated acts. In November, EIOPA, with its sister European Supervisory Authorities, EBA and ESMA, issued a discussion paper on draft Regulatory Technical Standards via the ESA Joint Committee. The Level 2 processes continue into 2015.



ACTIONS OF FINANCE WATCH

Finance Watch argued intensively from **late 2012 to April 2014** for a wider scope and warning label, among other things. We stepped up these efforts at the end of 2013 during the Parliament compromise meetings and in early 2014 dialogues, against the risk that key elements could be lost as the deadline for the end of the Parliamentary term approached. After highly-contested negotiations, the inter-institutional agreement reflected several wins for consumers and Finance Watch issued a press release on **1 April 2014** to acknowledge them and commit to protecting them during the Level 2 process. This formally started in **November 2014** with the first Discussion Paper on the first set of Regulatory Technical Standards.



OUTCOMES

The Level 1 text introduces a “**comprehension alert**” label that will warn consumers if they are about to buy a product with features that have led to miss-selling cases in the past. Three criteria are put forward: whether the product invests in one or several unusual asset classes, whether the return is linked to a complex mathematical formula, or whether the product contains features which play on behavioural biases.

Minor improvements were made on the **scope** by including certain insurance products (hence the name change from PRIPs to PRIIPs to include insurance-based products), although there are potential inconsistencies with the forthcoming Insurance Mediation Directive which regulates the sales of insurance products. Pension products will not be subject to a Key Information Document, although this may be revised after four years.

Consumers will also know exactly how **financial advisor fees** will impact the return on their products. Product issuers who claim their product contributes to **environmental and social objectives** will have to substantiate such claims.



CALENDAR

17 November 2014
Joint Committee of the European Supervisory Authorities issues discussion paper on Regulatory Technical Standards

15 April 2014
Parliament plenary vote

1 April 2014
Inter-institutional compromise agreed

January to March 2014
Dialogues

19 April 2013
Discussion paper on product rules for retail investment products

31 October 2012
Publication of Finance Watch position paper

3 July 2012
Commission publishes proposal for PRIIPs regulation

Better Regulation

CONTEXT

Under the Better Regulation agenda, the new Juncker Commission is far more restrictive on new legislative initiatives taken within the annual Commission Work Programme. It has done a one-off trawl of all legislation to find measures that should be repealed. The Better Regulation agenda puts pressure on Parliament and Council to subject their legislative amendments to impact assessments and will lead to close scrutiny of legislative negotiations carried over from the previous mandate to see which proposals might be withdrawn as they are no longer perceived as useful or dragging on too long in negotiations. The Commission is also negotiating a new Inter-Institutional Agreement on the transparency of lobbying.

One of the dossiers that was suggested for potential withdrawal during a **November 2014** exchange of positions between Commissioner Jonathan Hill and Commission First Vice-President Frans Timmermans is the Bank Structure Reform proposal, presented less than a year before, in January 2014. However, the Commission never formally proposed to withdraw this legislative initiative and negotiations continue.

Under pressure from potential withdrawal, the Council agreed a General Approach on the revision of the Institutions for Occupational Retirement Provision (IORP II).

The only ongoing initiative likely to be halted at the time of writing is the Investor Compensation Schemes Directive, which deals with cases where an investment firm is unable to return assets belonging to an investor. This Directive, proposed

in 2010 but stalled in Council, mirrors similar guarantees for deposit accounts, which have been increased after bank runs in the early days of the financial crisis. This sends a strange message to consumers who are considering whether to move their money from bank deposits into shares, something that the Capital Markets Union aims to stimulate directly (through loosening the rules for Prospectuses and Private Placement) and indirectly.

President Juncker's goal of reducing excessive or unnecessary regulation has focussed attention on the Commission's "Better Regulation" processes, now overseen by Commission First Vice President Frans Timmermans. A major concern for civil society actors including Finance Watch is that legitimate efforts to rationalise and simplify rules do not turn into a business-led agenda for deregulation.

Finance Watch has been closely monitoring developments. We met with the cabinet staff of Hill and Timmermans and also published an open letter to former Commissioner Barnier.



BETTER REGULATION WATCHDOG NETWORK



As well as in finance, many files in environmental, social and health legislation could potentially be put under pressure under the Better Regulation initiative. In November 2014 we therefore started sharing information with Member organisations potentially affected by this agenda, and coordinating our advocacy work.

Together with four of other civil society organisations (BEUC, Friends of the Earth Europe, ÖGB and UNI Europa) we formed a Steering Group which launched the **Better Regulation Watchdog network**, a group of civil society organisations concerned about the Better Regulation agenda.

The network was formally presented in **May 2015** with more than 50 civil society organisations from different sectors. The network will examine actions taken under the Better Regulation initiative and flag possible risks to social, labour, environmental,

"Laws need to be efficient. But, let's be clear, a one-sided reduction of regulatory burdens on business does not equate to better law-making and should never be at the expense of consumers, the environment or workers. To shy away from taking necessary actions can be a very costly exercise for our societies in the long-term."

Monique Goyens,
Director General of
The European Consumer
Organisation (BEUC)

consumer, financial regulation and public health standards.

IMPACT ASSESSMENTS

Finance Watch responded to a public consultation on the way the Commission conducts impact assessments before proposing legislation. We said we would like to see greater attention to the societal dimension in impact assessments, taking in factors that are hard to measure in economic terms but nevertheless important, such as financial stability, integration, health or consumer rights.

The costs of regulation are often quite easy to calculate, since they are simply to quantify, immediate and fall on a small defined number of players, who will gladly demonstrate how much their profit has gone down compared to the pre-legislative situation. The benefits of regulation, on the other hand, are often difficult to quantify, in the long run, and fall on a large group of actors – often all citizens or all taxpayers. When industry lobbyists propose to look at implementation and compliance costs only, they are effectively calling on policymakers to ignore the benefits of financial regulation to society.

"Growth and jobs need financial stability. The completion of a solid regulatory framework for the financial sector is one of the "big things" that Europe should focus on. As a member of the Better Regulation Watchdog network we will watch the outputs of the Better Regulation initiative closely."

Christophe Nijdam,
Secretary General of Finance Watch

Banking Union and BRRD

CONTEXT

Banking Union is a package of measures aimed at supporting the further integration of the European banking system. It consists of an EU-wide single rulebook and harmonised deposit guarantees, and a Eurozone single supervisor, single resolution mechanism (SRM) and single resolution fund. Other member states can opt in to the Eurozone-only elements.

The Bank Recovery and Resolution Directive creates an EU-wide framework to provide bail-in and other tools for dealing with troubled banks.

“There is no such thing as a perfect stress test. The current exercise is still based on a flawed “risk weighting” approach, which allows banks some discretion in how they mark assets... After a year of economic weakness, it is surprising that the total capital shortfall has been put at just €24bn.”

Financial Times,
editorial 27 October 2014



LEGISLATIVE ACTIVITY

Banking Union aims to address the “vicious circle between banks and sovereigns”, in which the solvency of banks and the individual sovereigns that stand behind them have become too interlinked. It does so by mutualising risk among participating countries and by moving responsibility for bank supervision and crisis management to the European level.

The EU institutions agreed on the final component of the Banking Union, the Single Resolution Mechanism (SRM), in March 2014 just before the end of the Parliamentary term. The SRM includes the Single Resolution Fund (SRF) and the Single Resolution Board (SRB), which will function according to the regulation establishing the SRM.

The BRRD includes rules to allocate losses to bank shareholders and creditors (“bail-in”) before external funds are used (including the SRF for banks in Member States participating in Banking Union), and the SRM provides the mechanism through which this is applied in the Banking Union area.

The EU institutions also agreed in December 2013 to harmonise national deposit guarantee schemes at €100,000, and to make €55 billion available from the European Stability Mechanism as an emergency backstop to recapitalise failing banks if the SRF should prove insufficient.

In November 2014, the ECB took over bank supervision of the 130 or so largest Eurozone banks from national supervisors, according to the Single Supervisory Mechanism (SSM) agreement of November 2013.

To prepare for this role, the ECB carried out a round of bank stress tests and an asset quality review (AQR) of these banks. In parallel, EBA carried out an EU-wide assessment. The results of both these assessments were published on 26 October 2014, a week before the ECB assumed its new responsibilities.

Work on the Level 2 implementation of BRRD - calibrating the bail-in rules - started in late 2014 and continued into 2015. The EBA consulted on the treatment of Minimum Requirement for Own Funds and Eligible Liabilities (MREL), which looks at how much bail-in-able debt a bank must have as well as giving an overview of European standards in relation to a similar proposal from the FSB on Total Loss Absorbency Capacity (TLAC).



“Should precautionary recapitalisations make taxpayers nervous?” Policy Brief,
8 October 2014

CALENDAR

1 January 2016
Bail-in applies and SRM should be fully operational

1 January 2015
Single Resolution Board (SRB) and national authorities start cooperating on bank resolution plans

4 November 2014
ECB assumes responsibility for bank supervision under the SSM

29 October 2014
Finance Watch press release “Stress test and AQR results show need for binding leverage ratio”

26 October 2014
EBA and ECB publish stress test and AQR results

24 October 2014
Finance Watch webinar on stress test and AQR

8 October 2014
Finance Watch policy brief “Should precautionary recapitalisations make taxpayers nervous?”

20 March 2014
Political agreement among EU institutions on SRM

18 December 2013
Council and Eurogroup agree on use of ESM as backstop

4 November 2013
SSM enters into force

5 September 2013
Finance Watch report “Europe’s banking trilemma”

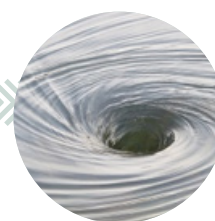
10 July 2013
Commission publishes proposal for SRM Regulation

12 September 2012
Commission publishes proposal for SSM Regulation

6 June 2012
Commission publishes proposal for BRRD Directive

“The expected probability that systemically important banks will be bailed out remains high in all regions.”

IMF Global Financial Stability Report, April 2014



FINANCE WATCH'S VIEWPOINT

Prevention is better than cure

In order for Banking Union to address moral hazard - the situation where banks can take risks at the expense of others - it must establish a credible resolution mechanism that will see banks' private creditors bear the costs of potential bank defaults. To achieve this, Banking Union needs a resolution mechanism that is credible, with a robust bail-in mechanism and adequately funded crisis management funds.

But if supervisors are ever faced with a large or systemic bank failure, they may prefer not to apply bail-in for fear that this could spread risk to the rest of the financial system due to the massive scale, complexity, and interconnectedness of banks. Having a resolution framework in place is therefore not enough; to be credible the framework also needs an ex ante, structural separation of banks' commercial and investment banking activities to avoid the resolution mechanism becoming “jammed” just when it is most needed.

Reform incentives on sovereign debt

The current regulatory preference for sovereign debt leads to “moral suasion”, a situation in which large banks hold undue influence over their governments through the purchase of their governments' debt. To truly break the sovereign-bank loop, legislators must address the regulatory incentives that encourage banks to hold large amounts of sovereign debt. Technical measures to help achieve this include ending the zero risk-weighting of sovereign debt for capital requirement purposes, addressing the definition of High Quality Liquid Assets in the Liquidity Coverage Ratio, and the treatment of sovereign debt in the large exposures regime.

Stress test and AQR results highlight need for leverage ratio

The ECB and EBA findings should help to clean bank balance sheets and boost investors' confidence in banks but the assessment had some technical weaknesses:

- the calculation of capital shortfalls was linked to risk-based capital requirements, a measure that proved

nearly useless in predicting bank resilience in the 2008 financial crisis,

- the “static” stress test assumption that balance sheets would not change during a period of stress ignores second round effects such as asset fire sales,
- the decision not to apply new capital rules in full (“fully loaded CRD IV/CRR”) might undermine the transparency and comparability of results.

There is still a lot to be done to refocus banks on the real economy and to deal with the system's excessive leverage. To this end, the stress test and AQR weaknesses highlight the importance of introducing a binding leverage cap.

Why should citizens care?

The financial crisis had a devastating impact on public finances, due in part to the links between banks and sovereigns and to the interconnectedness of large too-big-to-fail banks. If Banking Union is to work in the future, it has to succeed in lowering the political and economic risks of taxpayers having to pay for bank bail-outs.



ACTIONS OF FINANCE WATCH

Finance Watch welcomed the SRM agreement in a press release on **1 April** but added that, to truly end the sovereign-bank feedback loop, the next Commission would also need to (1) tackle regulatory incentives that favour sovereign debt, and (2) the Parliament and Council should adopt the proposal for structural reform of bank activities to make bail-in and bank resolution credible.

As the stress tests and AQR approached, Finance Watch published a 14 page policy brief on **8 October**, “Should ‘precautionary recapitalisations’ make taxpayers nervous?”, warning that if banks that fail the tests cannot raise funds in the market, authorities could in some circumstances recapitalise them with public money. This shows the need for bank structure reform to

reduce fragility and interconnectedness in the European banking sector.

Two days before the stress test and AQR results were published, our senior analyst on banks Paulina Przewoska hosted a webinar targeted at journalists, “EU Banks stress tests - why taxpayers are at risk?”, to explain how the assessment is meant to work and what to look out for in the results.

On **29 October**, after studying the results, we issued a press release with a more detailed critique of the assessment and calling for a binding leverage cap.

In **December**, we started work on consultation responses for MREL and TLAC as part of the implementation of bail-in rules.



OUTCOMES

The stress test and AQR results detected a capital shortfall of €25 billion at 25 participant banks and asset value adjustment of €37 billion, implying an overall impact of €62 billion. This has encouraged some further bank recapitalisation. However, the outcome of the bank structure reform proposal remains uncertain (see page 20). The Basel Committee of Banking Supervisors said in January 2015 that it would start to review the zero-weighting of sovereign debt, which is a positive step. Ultimately, the success of Banking Union will not be known until the next crisis.

Shadow Banking / MMFs

CONTEXT

Considered part of the shadow banking sector, Money Market Funds (MMFs) are mutual funds that invest mainly in short-term debt issued by banks, (local) governments or corporations. MMFs are often perceived by investors as a safe and more diversified alternative to bank deposits. However, a key difference with bank deposits is that their value fluctuates with that of their underlying investments, and that investors are not protected by deposit guarantee schemes.

Unfortunately, problems in the shadow banking sector go far beyond MMFs only. Although, some other initiatives have been taken such as the Securities Financing Transactions Regulation (see page 34), shadow banking continues largely unregulated, and continues to grow as tightened regulation creates incentives to move activities away from the regulated banking system.



LEGISLATIVE ACTIVITY

A Money Market Fund (MMF) is a mutual fund that invests in short-term debt issued by banks, governments or corporations. The instruments that the fund invests in include government treasury bills, commercial paper and certificates of deposit.

Money Market Funds also invest in certain types of securitized financial instruments, backed by company debt or trade receivables, subject to certain conditions on minimum credit and liquidity thresholds.

Two types of MMFs currently exist: those with a Constant Net Asset Value (CNAV), whose principal value is not supposed to fluctuate at any time, and those with a fluctuating Variable Net Asset Value (VNAV). CNAVs are liable to investor panic if the fund suffers significant losses, as happened during the crisis. CNAV MMFs can give the misleading impression that they are equivalent to bank deposits. However, big losses mean that constant asset value cannot be maintained, creating a cliff effect with detrimental psychological impact. To reduce this risk, the Commission proposed to introduce a buffer to absorb losses (at 3% of the fund's value) at MMFs that use the CNAV system.

The Commission's proposal aimed to ensure that MMFs can better withstand redemption pressure at times of market stress by enhancing their stability and strengthening investor protection. This is because MMFs are systemically relevant: almost 40% of short-term debt issued by the banking sector is held by MMFs, so a run on the sector could cause difficulties at banks and corporates alike.

Parliamentary work on the Commission's 2013 MMF proposal ran into delays in early 2014 when ECON MEPs disagreed on how best to protect investors in CNAV funds (mandatory conversion to VNAV, redemption buffers or liquidity gates). No agreement was found before the elections and in autumn 2014 the new Parliament rapporteur decided to restart from scratch. In the Council, the Italian presidency presented a compromise text in November 2014 proposing, among other things, to relax the rules about which types of securitisations would be eligible for MMFs to invest in.

MMFs are one of five areas to be examined under the Financial Stability Board's shadow banking work programme and the first to see a Commission legislative proposal, which seeks convergence with recommendations from the FSB and the European Systemic Risk Board (ESRB).

The Commission proposal follows its March 2012 Green Paper on Shadow Banking and a non-legislative report on the Green Paper by the Parliament, adopted in November 2012.

CALENDAR

29 April 2015
Parliament vote in Plenary

26 February 2015
ECON vote

January-February 2015
Compromise negotiations in ECON

12 January 2015
Amendments to draft report tabled in ECON committee

27 November 2014
Italian presidency proposes a compromise text

26 November 2014
Draft report by Parliament rapporteur Neena Gill (S&D, UK)

13 October 2014
First exchange of views in new ECON Committee

May 2014
European Parliament elections

15 November 2013
ECON draft report by Saïd El Khadraoui (S&D, Belgium)

4 September 2013
Commission publishes proposal for Money Market Funds Regulation

20 November 2012
Parliament plenary adopts non-legislative report on shadow banking

19 October 2012
[Finance Watch responds to Commission consultation on the future of UCITS, raising MMF issues](#)

1 June 2012
[Finance Watch responds to Commission consultation on shadow banking](#)

19 March 2012
Commission Green Paper on shadow banking

27 October 2011
FSB report for G20 on shadow banking



FINANCE WATCH'S VIEWPOINT

The role that MMFs play in funding the banking system creates a strong risk of contagion in the event of a run on MMFs. We have suggested that MMFs be divided into short term MMFs, which would be restricted from investing in long-term assets and structured financial instruments, and longer term MMFs which would be free to invest in those assets but should be subject to redemption gates.

The Commission's proposal included positive elements such as rules defining which assets MMFs can

invest in ("eligible assets") and a restriction on the provision of external support by a fund sponsor in times of stress. We supported the FSB's proposal to ban CNAV but, as an alternative, we also supported the intention of the CNAV buffer, as it highlights the fact that MMFs are not deposits and that their assets are subject to price fluctuations. We prefer that "eligible investments" do not include securitised assets, as these increase the indirect exposure or leverage of MMFs.

Why should citizens care?

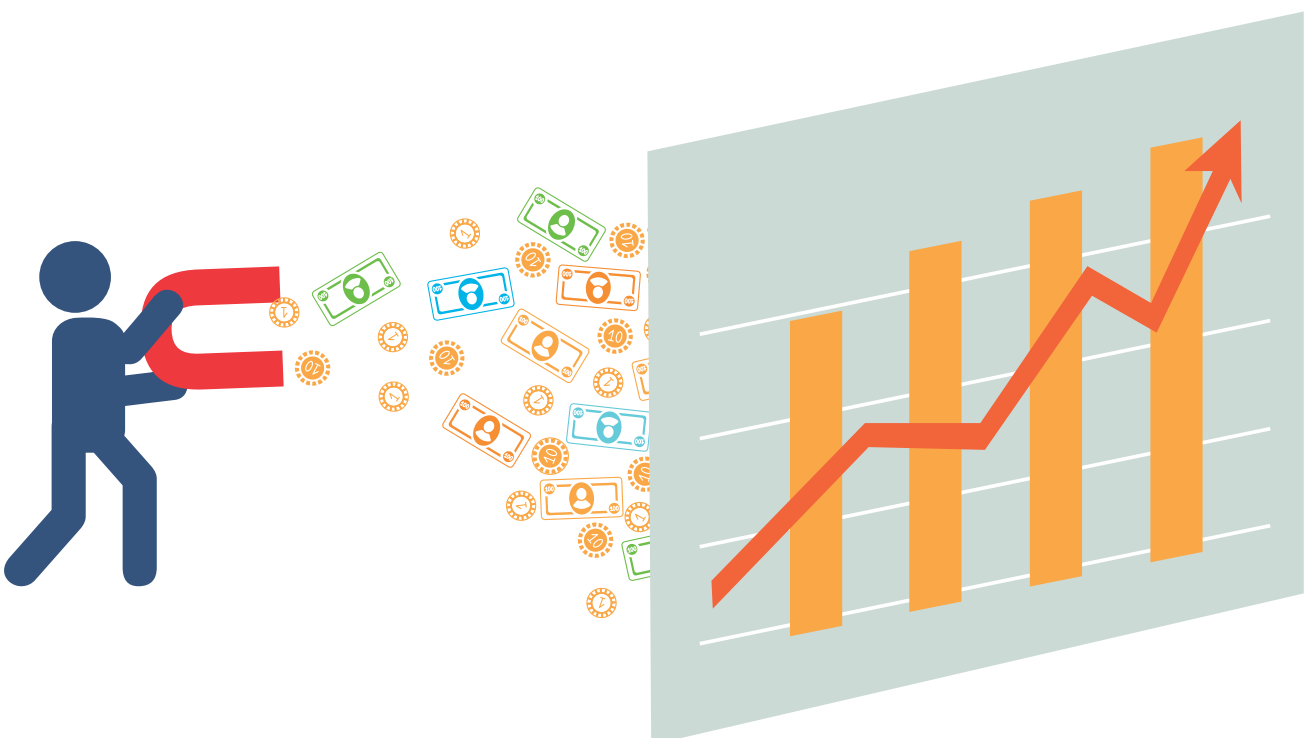
With the collapse of Lehman Brothers in 2008, some MMF investors realized that they were exposed to major counterparty risks, for example if a bank whose debt the MMF had bought became unable to fulfil its commitments. Consumers and professional investors who buy MMFs should have appropriate protection from such risks.

ACTIONS OF FINANCE WATCH

Following failure to find a Parliament agreement in 2014, we moved the focus of our shadow banking work to securitisation and published a detailed position on this in **December** (see under LTF). We continued to monitor the MMF file and responded to questions from MEPs in the new ECON Committee about our position.

OUTCOMES

At the time of writing, Member States still need to adopt their position, so that inter-institutional negotiations can start. We welcome Parliament's proposal to ban sponsor support, but had also wanted much stronger restrictions on eligible assets, a stronger commitment to move away from CNAV over time and a ban on external ratings.



Securities Financing Transactions (SFT)

CONTEXT

Securities financing is the lending of securities (stocks, bonds, asset-backed securities) by one party to another against cash. There are different types of securities financing transactions, including securities loans, repurchase agreements and sell-buybacks, but the economics of the transaction are similar: this is a form of short-term lending using securities as collateral. In January 2014, the European Commission proposed a Regulation to make SFTs more transparent by giving supervisors a better understanding of the systemic risks of this practice.



LEGISLATIVE ACTIVITY

In August 2013, the FSB published a Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos, with 11 recommendations on transparency, regulation and market structure. In January 2014, the European Commission proposed a Regulation on SFTs transposing four of the FSB's recommendations on transparency. The FSB's other recommendations (on cash collateral reinvestment, collateral valuation and management, central clearing and bankruptcy law) are not covered by the SFT proposal, and nor are five additional recommendations to restrict the use of SFTs that the FSB published in October 2014 (by restricting the re-use of collateral and setting minimum haircut floors for non-centrally cleared SFTs).

The Commission's proposal follows its 2012 Green paper and 2013 Communication on shadow banking and the Parliament's 2012 own initiative report on shadow banking, among other things. It was published in January 2014 on the same day as the proposal for Bank Structure Reform.

The proposed Regulation would require all SFTs to be reported to trade repositories, which should help supervisors to identify stability risks. It would require investment funds that use SFTs to inform their investors and potential investors about their SFT practices, which should improve market discipline as investors could better assess the risks and rewards being taken with their assets.

Although the Parliament's rapporteur initially agreed to include actual restrictions on SFT in the proposal, it was ultimately decided to leave this matter for a later date, following reassurances by the European Commission that it would consider implementation of the FSB's October 2014 recommendations in the coming years.



Position paper "A missed opportunity to revive 'boring' finance?"

CALENDAR

Q2 2015

Inter-institutional negotiations start

24 March 2015

ECON approves SFT Regulation report

22 December 2014

ECON draft report by Renato Soru (S&D, Italy)

15 December 2014

Finance Watch position paper on long term financing, securitisation and securities financing

20 November 2014

Council adopts General Approach

19 November 2014

Finance Watch speaks at ECON Hearing on SFT Regulation

14 October 2014

FSB Regulatory framework for haircuts on non-centrally cleared SFTs

29 January 2014

Commission proposal

29 August 2013

FSB Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos



FINANCE WATCH'S VIEWPOINT

Although we want to move beyond transparency, the rules on improved transparency and reporting of SFTs are welcome. Better disclosure around SFTs should ensure a fairer split of risks and rewards between fund managers and investors, while the rules on rehypothecation (for example where a bank receives securities from a hedge fund as collateral for a loan and then uses the securities to borrow money itself) should give added protection and certainty to investors.

However, this is only part of the solution for tackling the systemic risks linked to SFTs. The increasing use of collateral in general raises concerns about systemic leverage and pro-cyclicality that need addressing in other ways. For example, minimum haircut floors on all securities transactions and capping the re-use of collateral would help to restrain excessive use, along with other prudential and fiscal incentives.

The current promotion of non-bank lending via Capital Markets Union (CMU, see page 23) will lead to a more

collateral-intensive financial system, since the revival of securitisation will create more high quality liquid securities that can be used as collateral. The CMU is therefore likely to promote a further growth of SFTs. This makes it all the more urgent to address the negative externalities and systemic concerns related to this practice.

Why should citizens care?

In addition to the transparency problems linked to SFTs, these transactions are also relevant from a systemic risk perspective. SFTs create chains of collateral between financial entities that increase interconnectedness and the risk of domino effects.

SFTs are also responsible for additional pro-cyclicality through the fluctuations of haircuts, eligible pools of collateral, and the number of times a security is re-used. The higher pro-cyclicality of non-bank lending raises a moral hazard question since it means you need an entity that will buy when

everyone wants to sell yet shadow banking does not have explicit and direct access to public safety nets and the crisis has shown the ineffectiveness of private backstops. This means that we must choose between extending access to public safety nets to shadow banking which would increase moral hazard, and shrinking the size of shadow banking (and not promoting it).

While SFT is low risk for the parties in the transaction, it creates negative externalities: raising haircuts might lead to one entity being forced to sell its assets, leading to a decline in the price of similar securities held by other institutions. In turn, this might force other institutions to sell assets, creating a downward price spiral.

The crisis has shown that securities financing is a very fragile and unstable form of funding. Yet, Europe's large banks rely extensively on this form of funding (61%), creating fragile funding structures.



ACTIONS OF FINANCE WATCH

In November, we spoke at a Parliament hearing on the SFT Regulation, where we urged MEPs to include in the SFT Regulation the FSB's October 2014 recommendations restricting the re-use of collateral and introducing mandatory haircuts.

In December, we published a position paper on long term financing, securitisation and securities financing, "*A missed opportunity to revive "boring" finance?*", which included a detailed annex on collateral. This sets out our views and recommendations on the systemic implications of increased collateral usage, an inevitable consequence of the CMU proposals to revive securitisation and promote cross-border collateral usage. The paper provided the basis for a discussion panel on collateral use in our February 2015 conference (see events page).



OUTCOMES

Of the FSB's various recommendations on securities lending and repos, only those on transparency and reporting to supervisors are included in the SFT Regulation as currently being negotiated in dialogues. The Commission has committed itself to reviewing within 18 months the inclusion of restrictions on SFT, and in the meantime Parliament's rapporteur has agreed to withdraw his amendments inserting the FSB's **October 2014** recommendations in the existing proposal.

TTIP

CONTEXT

The European Union and the United States started negotiations for a “Transatlantic Trade and Investment Partnership” (TTIP) in 2013.

“There is no proven case for including financial services in the TTIP. In fact, we are concerned that the EU’s approach to regulatory cooperation will encourage convergence towards the lowest common standards, not the highest.”

“Understanding Finance #2 - Financial services in TTIP?”
Finance Watch, October 2014



ACTIVITY

At the November 2011 EU-US Summit, leaders established a High-Level Working Group on Jobs and Growth, led by US Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht. The group’s final report, published on 13 February 2013, recommended launching the free trade agreement negotiations. EU Member States gave the Commission a mandate on 14 June 2013 to begin trade talks with the US. The negotiation includes three chapters: market access (about market liberalisation), regulatory cooperation, and investor protection mechanisms. As far as financial services are concerned, the US and the EU have divergent views: while both agree on the need to include financial services in the agreement, the US opposes the EC push for a cooperation mechanism on financial regulation to be included in the TTIP.

The European Parliament, which must ratify but cannot amend any agreement, held a public hearing in the Economic and Monetary Affairs Committee on 18 March 2015 and is now working on an own-initiative report, which is expected in mid-2015.

As negotiations continued through 2013 and 2014, public awareness and concern about TTIP grew increasingly vocal, giving rise to many initiatives such as petitions and demonstrations around Europe and in Brussels.

Plans for an Investor-State Dispute Settlements mechanism (ISDS) in particular raised massive opposition. The European Commission’s consultation on ISDS in mid-2014 drew responses from 450 organisations (including Finance Watch), individual replies from more than 3,000 citizens and 145,000 responses from citizens using on-line platforms.

Stakeholder events organised by the European Commission also showed how polarised the debate over TTIP is, with civil society groups - including consumer groups, NGOs, trade unions and many others – largely opposing the TTIP, while large businesses are generally supportive.

Once negotiators agree on a final text, it must be endorsed unanimously by member states and in majority by the European Parliament.

CALENDAR

2016 (European Commission estimate)

Ratification by member states, European Parliament and potentially some national parliaments

End of 2015 (European Commission estimate)
Agreement

20-24 April 2015
9th Negotiation round in New York

14-15 April 2015
Strategic meeting of civil society organisations on Regulatory Cooperation in TTIP

2-6 February 2015
8th Negotiation round in Brussels

2-3 February 2015

Civil society strategic meeting in Brussels

10 October 2014

Finance Watch publishes “Understanding Finance #2 - Financial services in TTIP?”

29 Sep- 3 October 2014
7th Negotiation round in Washington DC

1 October 2014

Finance Watch signs open letter from more than 50 European and US civil society organisations warning against TTIP undermining financial regulations

29 September 2014

Finance Watch signs open letter from 33 European civil society organisations calling

for regulatory cooperation to be removed from TTIP

14-18 July 2014

6th Negotiation round in Brussels

13 July 2014

Finance Watch (and c.150,000 others) respond to Commission consultation on Investor-State Dispute Settlements

19-23 May 2014

5th Negotiation round in Arlington, Virginia

19 May 2014

Finance Watch signs open letter from 250 civil society organisations calling for more transparency in the negotiation

27 March 2014

Commission launches public consultation on ISDS

18 March 2014

Finance Watch speaks at ECON hearing on TTIP and financial services

10-14 March 2014

4th Negotiation round in Washington DC

12 March 2014

Finance Watch speaks at Commission stakeholder event

14 June 2013

Negotiation mandate from member states to the Commission

April 2013

Finance Watch meets Commission officials on ISDS



FINANCE WATCH'S VIEWPOINT

TTIP aims to move beyond a classic free trade agreement to a regulatory cooperation “partnership” while removing “unnecessary barriers to trade”. Finance Watch’s view is that it is precisely the excessive deregulation of finance that led to the crisis, and that the post-crisis regulatory agenda is far from being closed, with several crucial pieces of regulation still needed to protect citizens from future financial crises.

The main argument in favour of including financial services in TTIP is that it could help to make financial regulation on both sides of the Atlantic converge. However, using a free trade agreement to achieve this goal risks a regulatory “race-to-the-bottom” (convergence towards a lower level of regulation) while putting public interest behind trade objectives, which might lead to increased contagion risks in

case of financial crisis or undermine consumer protection. Regulatory convergence tends to benefit private interests while the benefits for citizens are less certain. In any case, international regulatory convergence is best achieved in multilateral forums.

Doubts have also been raised about the true economic value of claimed TTIP benefits as a whole, and about its probable harmful effects on the democratic process, as it would take regulation further away from the public debate.

Finance Watch wants financial services in their entirety to be removed from the TTIP. More specifically, we call for (1) a moratorium on the liberalization of financial services, (2) regulatory cooperation to be handled outside of TTIP, and (3) a removal of ISDS provisions.

Why should citizens care?

Trade negotiations are not easily accessible to citizens and dispute mechanisms can be used by businesses to attack rules that they do not like, including those designed to protect consumers and taxpayers. It is important that legislators have the freedom to put the public interest first and to regulate the financial system effectively.

The ISDS mechanism would allow companies to sue national governments that adopt rules that are considered as a threat to the profitability of investments. While this is a standard feature in many trade agreements, its inclusion in TTIP could undermine European and national rules that are needed to protect citizens and taxpayers, in particular in financial services.



ACTIONS OF FINANCE WATCH

Finance Watch spoke at the Commission’s 4th Round stakeholder event on **12 March 2014** about services, investment and public procurement, and at a public hearing at the Parliament’s ECON Committee on **18 March 2014**. At the ECON hearing, we commented on regulatory convergence, supervision and transparency, and warned of a “race to the bottom” caused by regulatory convergence and a “regulatory chill” if governments act to avoid the threat of sanctions under the ISDS. At EU level, this has been used as an argument against tough rules in legislation such as MiFID II.

Finance Watch Members formed a new Working Group on TTIP in **January 2014**, which met several times during the year to share information and set up activities aimed at raising awareness on finance-specific issues in TTIP.

Finance Watch signed open letters during the year on transparency, regulatory cooperation, and financial Services and the TTIP.

In **July 2014**, we responded to the Commission’s public consultation in ISDS, opposing the introduction of ISDS into TTIP in all its modalities. We responded and supported our members in encouraging the general public to respond to the consultation.

We also published a 16-page multimedia, educational unit on TTIP on **10 October 2014**, which was published in German, French and English to help explain to the public why we oppose the inclusion of financial services in TTIP.



OUTCOMES

The call from the European Commission to include financial services in the regulatory cooperation chapter of TTIP is not formally on the table of the TTIP negotiations, because the US opposes it. Financial services, however, remain covered by the crucial parts of the agreement.

After the strong response to its consultation on ISDS, the Commission stopped negotiating on ISDS pending a further consultation with EU stakeholders, Member States and the Parliament in early 2015. The negotiating directives do create a possibility for member states to reject ISDS in the final phase of the negotiations in case certain conditions are not met.



Change of institutions

CONTEXT

Europe went to the polls in May 2014 to elect a new European Parliament. The 8th European Parliament was formed in June and its Committees reconstituted with a record turnover, leading to many new MEPs and only a few familiar faces in ECON, the most relevant Committee for Finance Watch. The new Commission took office on 1 November, following a series of intensive hearings including two appearances in the European Parliament of Jonathan Hill, the Commissioner for Financial Stability, Financial Services and Capital Markets Union.



ACTIVITY

The election – In the Parliament, the election results left the Group of the **European People's Party (EPP)** as the largest group. More importantly, the new Parliament makeup represents the “Grand Coalition” at European level, meaning most agreements must be endorsed by both EPP and Socialists & Democrats (S&D) to stand a fair chance of surviving. Very few alternative majorities (“opposition”) are possible compared to the previous Parliament, where S&D-ALDE-Green agreements could heavily influence outcomes. The new chair of the Parliament's ECON Committee, which handles the majority of financial regulation matters, is **Roberto Gualtieri MEP** (Italy, S&D), who was a keynote speaker at our 5 November 2014 event, “What finance for what growth?”.

Leadership – The Presidents of the European Parliament and the European Council are each elected by their institution for a term of two and a half years (half a Parliamentary term). In 2014, the sitting EP President **Martin Schulz**, the German MEP and chair of the S&D Group, was exceptionally re-elected for a second term. Polish Prime Minister **Donald Tusk** was elected by Member States as the new Council President as of 1 December 2014.

In an attempt to increase interest for the Parliament elections and improve voter turnout, political groups in the European Parliament put forward “Spitzenkandidaten”, each nominating their preferred Commission President. As the EPP won the elections, former Luxembourg Prime Minister **Jean-Claude Juncker** was put forward as Commission President at the 27 June European Council. The Parliament confirmed his mandate and Juncker started assembling his College of Commissioners on 15 July, for a planned start on 1 November 2014.

Juncker's Commission – President Juncker arranged his new College of Commissioners into teams, with 20 Commissioners reporting to one or more of six Vice-Presidents, plus the High Representative for Foreign Affairs and Security (**Federica Mogherini** of Italy). Of the 28 in the College, six have relevance for Finance Watch's work:

Jonathan Hill of the UK is the new Commissioner in the Directorate General for Financial Stability, Financial Services and Capital Markets Union, or “DG FISMA” (roughly half of the former DG Internal Markets and Services, or DG MARKT). Commissioner Hill is responsible for financial services legislation and reports to **Valdis Dombrovskis** of Latvia (Vice-President for the Euro and Social Dialogue) and **Jyrki Katainen** of Finland (Vice-President for Jobs, Growth, Investment and Competitiveness).

Pierre Moscovici of France (Commissioner for Economic and Financial Affairs, Taxation and Customs) and the Czech Republic's **Věra Jourová** (Commissioner for Justice, Consumers and Gender Equality) handle macro-economic and consumer issues respectively. Moscovici reports to Dombrovskis and Katainen, while Jourová reports to Timmermans, Dombrovskis and **Andrus Ansip**, Commissioner for the Digital Single Market.

Frans Timmermans, a Dutch labour politician and former foreign minister, is the First Vice-President with a brief to reduce unnecessary regulation, partly to address rising Euroscepticism. In that role, he has the power to veto Commission proposals if the topic could be better addressed with national legislation (see Better Regulation).



Commissioner Jonathan Hill.

CALENDAR

1 December

New President of the European Council Donald Tusk takes office

1 November

New European Commission takes office

24 October

Finance Watch publishes open letter to former Commissioner Barnier

22 October

Parliament approves College of Commissioners

7 October

Additional ECON Committee hearing of Jonathan Hill

5 October

Jonathan Hill responds to ECON supplementary questionnaire

3 October

Finance Watch publishes model answers to ECON supplementary questionnaire for Hill

1 October

ECON Committee hearing of Jonathan Hill

15 July

EP elects Juncker as Commission President
26 September
Commissioners-designate respond to written questions

1 July

1st plenary session of the new Parliament in Strasbourg, Schulz re-elected EP President

27 June

Council nominates Juncker for Commission president

22-25 May

European Parliament elections

8 May

Election debate in The Hague on financial regulation organised by Finance Watch and Members

6 May

Finance Watch public hustings event in Paris

“Many of the costs of the reforms are private costs to financial intermediaries that arise in the transition to a more stable financial system and are offset by wider economic and societal benefits.

European Commission,
“Economic review of the financial regulation agenda”, May 2014

FINANCE WATCH'S ACTIONS AND VIEWPOINT

In the Parliament's round of hearings for Commissioners-designate, Jonathan Hill, the most relevant Commissioner-designate for Finance Watch, was requested to return to the ECON Committee for a second, shorter, hearing and answer a second policy-specific questionnaire.

We used the exceptional opportunity of two hearings to urge MEPs to put forward our points when challenging the future Commissioner, and even published our own set of “model answers” to the supplementary questionnaire to show MEPs the kind of answers we were hoping to see.

In his two sets of answers, Commissioner-designate Hill raised several relevant points for Finance Watch. He mentioned plans to revive securitisation and promote more cross-border collateral use (see Securities Financing Transactions, page 34). He was cautious about his predecessor's proposal on bank structure reform (BSR), saying that resolution and total loss-absorbing capital (TLAC) measures may not be enough to deal with “residual risk” or eliminate the too-big-to-fail subsidy at some banks with large trading operations, but that a lot would depend on BSR's political progress. On the task of consolidating previous regulation (whether there would be a “regulatory pause”), he talked about horizontal coherence and addressing regulatory overlaps, and made some positive comments about consumer protection.

The renewal of the EU's institutions took place amid rising euro-scepticism in the elections, concerns about the economy and a recent period of high regulatory activity. Industry lobbyists used these trends to justify lighter regulation or even deregulation at the European level, potentially at the expense of public interest.

Financial industry lobbyists have sought to frame the issue as if there were a trade-off between regulation and the EU's growth and jobs agenda. However, there is a strong consensus in financial services that good rules are a prerequisite for healthy markets that benefit consumers and citizens.

Thinking about regulation and growth as a “trade-off” is therefore counterproductive and risks hurting citizens through under-regulation.

In an open letter to thank outgoing Commissioner Michel Barnier in his last week in October, we warned against moving towards deregulation, as Europe has still not recovered from the worst crisis in a century, and we highlighted the need for the new Commission to focus on the effectiveness of regulation and to avoid industry pressure for deregulation.

Another familiar lobby claim, that financial regulation is costly for society, was effectively debunked by the outgoing Commission. An official study, “Economic review of the financial regulation agenda” published just ahead of the election in May, contained an aggregated economic analysis of the 40-odd legislative initiatives initiated since 2009 and concluded that the total benefits of the financial regulation agenda are expected to significantly outweigh the costs (see impact assessments on page 29). The financial industry and its lobby had been calling for a “cumulative impact assessment of financial regulation” for some years in an attempt to freeze any further reform initiatives. But the headline findings of this study should make such lobbying less likely to succeed.

European Council President



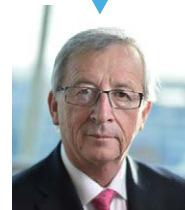
Donald Tusk

European Parliament President



Martin Schulz
MEP

Commission President



Jean-Claude
Juncker

ECON chair



Roberto Gualtieri
MEP



Other interventions

CHANGE FINANCE! CAMPAIGN AND CITIZENS' DASHBOARD*

On 15 September 2013, five years after the collapse of Lehman Brothers, Finance Watch launched its Change Finance! Campaign. The campaign's central message is that, despite the good intentions of policymakers and the many regulations and policies adopted since the crisis, little has fundamentally changed in the financial sector.

The Citizens' Dashboard was one of the recommendations that emerged from the campaign. The Dashboard will gather various indicators to answer the question: is finance serving society? The trends revealed by the indicators should help to measure the real impact of regulation adopted since the crisis.

Work on the Dashboard began in early 2014 when Finance Watch staff, Members and other civil society representatives started exchanging ideas for possible indicators. A first version of the Dashboard was developed at a full day workshop with those stakeholders in Brussels on 26 June. Their first task was to catalogue the impacts of finance on society, good and bad, and then identify society's financial needs and possible indicators that would show if these needs are being met. The next step in the plan is to develop the Dashboard into a campaigning and information tool for civil society, and work on a blueprint for the Dashboard continues in 2015.

CORPORATE GOVERNANCE

In April 2014, the Commission presented a proposal to revise the Shareholder Rights Directive to tackle certain corporate governance shortcomings in European listed companies, as well as a proposal for a Directive to make it easier to set up companies with a single

shareholder across the EU; and a Commission Recommendation to improve corporate governance reporting by listed companies.

This follows a Commission consultation the year before on a review of the Shareholder Rights Directive. Finance Watch and some of its Members had responded to that consultation, calling for better alignment of voting rights and long-term shareholder interests; disclosure of economic, social and governance objectives; and improved fiduciary duty.

Later in 2014, we started work on a response to the BCBS consultation on revised guidelines on corporate governance for banks, which was submitted in early 2015. Our recommendations included limiting banks' reliance on internal models to help banks better manage their risk, taking better account of externalities such as individual banks' contribution to systemic risk, encouraging longer term corporate strategies, and structural reforms to avoid adverse governance incentives in large universal banks.

COUNTRY-BY-COUNTRY REPORTING AND CORPORATE TAXATION

In May 2013, the Parliament published a non-legislative report "Fight against Tax Fraud, Tax Evasion and Tax Havens" recommending that country-by-country reporting should apply to cross-border companies in all sectors. Currently, it is mandatory only for banks and large extractive and logging companies. Finance Watch and some of its Member organisations had contributed to Parliament's report, arguing that country-by-country reporting would help to reduce the use of transfer pricing and other techniques used to avoid paying taxes.

As required by CRD IV, a Commission study published in October 2014 reported that the country-by-country

reporting requirement for banks would have positive effects on the economy and it opened a public consultation on its proposal to implement this requirement as planned. Finance Watch joined 34 civil society organisations in making a joint response. The response describes the limited impact that country-by-country reporting would have on competitiveness, investments, financial stability or commercial confidentiality and highlighted the benefits it would have for democracy, tax administration and public trust.

On 18 March 2015, the new Commission announced a package of tax transparency measures including a commitment to assess possible new transparency requirements for multinationals in all sectors. It promised to present an Action Plan on corporate taxation before summer 2015.

EUROPE 2020

"Europe 2020" is a ten-year jobs and growth strategy through which the EU hopes to deliver smart, sustainable and inclusive growth. It was launched in 2010 and aims by 2020 to reach certain targets in employment, R&D, climate/energy, education, social inclusion and poverty reduction.

As the mid-point approached in 2014, the Commission held a public consultation and stocktaking exercise. Finance Watch responded to the consultation arguing that the 2020 goals should integrate finance, which underpins the other goals. Our submission cited evidence that the financial sector is not yet fit for purpose and that regulatory progress does not yet address the major risks and misallocation of resources in the EU financial sector. The Commission will present proposals for a review of its Europe 2020 strategy before the end of 2015.



INTEGRATION OF ESG AND RESPONSIBLE INVESTMENT PRINCIPLES IN LONG TERM INVESTMENT DECISIONS*

In May 2014, Finance Watch held a symposium in London for experts from the financial industry, academia and civil society to brainstorm policy ideas on socially responsible investment. The discussion looked at how to define and measure the non-financial impact of responsible investment to reinforce its credibility, and how to convince an even larger pool of investors and asset managers to adopt SRI. It resulted in a report with more than 40 recommendations, including:

- Require fund managers to act on their clients' ESG preferences
- Educate the investing public, help them to put pressure on their fund managers
- Legal definition for funds that want to label themselves "sustainable"
- Adopt common ESG indicators and mandate ESG impact disclosure to allow comparability

The event was followed with a report summarising the recommendations and a further, more detailed report to the French public bank, Caisse des Dépôts, on the same issues.

STAKEHOLDER CONSULTATIONS

The European Commission routinely consults with stakeholders when making policy, as well as conducting impact assessments, evaluations, fitness checks and seeking expertise. In 2012, the Commission reviewed the process under which its stakeholder consultations are carried out and followed up with a public consultation in 2014. Finance Watch responded to this and a simultaneous consultation on Impact Assessments (see "Better Regulation").

As a stakeholder and frequent respondent to Commission consultations, Finance

Watch argued that consultations could be improved in several ways, including: by identifying the actual interests being represented rather than just the profile (eg when academics are paid to represent a certain view), by encouraging more respondents from outside the (financial) industry, clarifying how the results affect legislative drafting, and improving the visibility of the stakeholder consultation process. The Commission is expected to publish an updated version of its Stakeholder Consultation guidelines in 2015 as part of the Better Regulation work stream.

BANK CAPITAL REQUIREMENTS AND BASEL COMMITTEE WORK*

The Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV), which implements the Basel III agreement on bank capital standards in the EU, became effective at the start of 2014. Finance Watch participated in some of the follow up work in 2014 (see country-by-country reporting, opposite) and will work in future on the most significant outstanding item, bank leverage.

The Commission has until the end of 2016 to report on a possible legislative proposal to introduce a leverage cap. Meanwhile, in January 2014, the Basel Committee on Banking Supervision published its leverage ratio framework together with the public disclosure requirements that apply in the EU and elsewhere from 1 January 2015. The Basel leverage ratio framework includes a more lenient treatment of derivatives, which we assessed as a missed opportunity to reduce systemic risk, in the grounds that the usefulness of the leverage ratio to regulators and investors depends on its simplicity and inclusiveness.

In October 2013, the Basel Committee issued a major discussion paper entitled "*The regulatory framework: balancing risk*

sensitivity, simplicity and comparability" that recognized the need to simplify the regulatory framework and the importance of simpler, more robust metrics ("The pursuit of increased risk sensitivity has considerably increased the complexity of the capital adequacy framework in some areas – particularly the calculation methodology for risk-weighted assets", was one of the report's conclusions). We strongly hope that this paper will sow the seeds of a future bank prudential framework that will be simpler, more resilient and less prone to manipulation.

Also in relation to bank capital, we used our response to the BCBS consultation on corporate governance principles for banks (see opposite) to highlight the need for greater consistency and soundness of risk weights calculated using internal models, which are vulnerable to incorrect assumptions.

RIISING COSTS OF FINANCIAL INTERMEDIATION

Finance Watch sponsored a research project by the Paris-based Institut des Politiques Publiques into the unit cost of financial intermediation in the EU, which has increased since the 1990s with the growth of market-based finance.

The study, published on 18 June 2014, finds that, while the financial sector's share of GDP has tripled since 1951, finance has also become more expensive on a cost-per-unit basis since the 1970s (comparing financial sector income with the volume of financial services produced).

The rises since 1990 cannot be explained by changes in nominal interest rates. The study's author notes that this period coincides with the era of financial deregulation and produces evidence to link the cost increase with the development of securitisation. The study replicates a well-known study carried out in the US by Thomas Philippon.

* Topics mandated for 2014 by the General Assembly 27 November 2013



Finance Watch

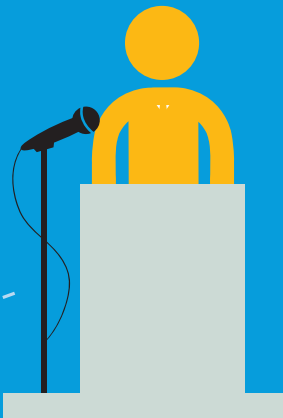
Making finance
serve society





OPERATIONAL REPORT

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Financial Report

Resources and expenses 1 January to 31 December 2014

Finance Watch’s long-term fundraising strategy is to have diversified, stable, sustainable and independent funding from a balance of institutional sources (charitable foundations and public grants), as well as donations from the general public, membership fees and other income. We also aim to strengthen our cash flow and seasonal working capital situations.

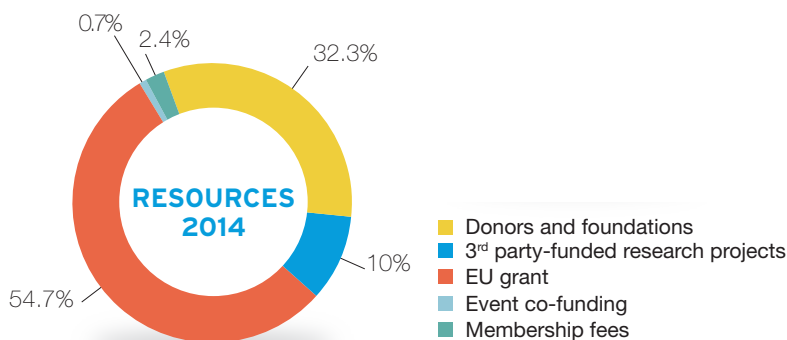
AUDITED RESOURCES IN 2014

	<i>(in Euro)</i>
Membership fees	43,560
Donors and foundations	1,598,107
Adessium Foundation	408,149
Fondation pour le progrès de l'Homme	50,000
Donations by private individuals	38,168
Better Markets	97,100
EU grant	1,004,690
Event co-funding	12,627
Friedrich-Ebert-Stiftung	11,867
Conference registrations	760
3rd party-funded research projects	183,490
Open Society Initiative for Europe	141,824
Caisse des Dépôts	41,666
Total Resources	1,837,789

Total resources for 2014 were €1,837,789, or 3% lower than the €1,897,506 in the previous year. The main reasons for this are decreases in the EU grant (- €162,214) and in conference registrations and event co-funding (- €55,938), partially offset by an increase in third-party funded research projects (+ €152,657).

Finance Watch’s largest source of funding, the EU grant, represented 54.7% of resources in 2014. Funding from private donors and foundations, including 3rd party funded research projects, represented 42.3% of resources, up from 32.5% the previous year.

In 2014, we started a new collaboration with Open Society Initiative for Europe, one of the Open Society Foundations, which seeks to empower Europeans and their civil society organizations to reinforce and, where necessary, reclaim their central role in European democracies.



“We need lobbyists as representatives for all groups in our society, including the “other 99%”... We need somehow to encourage lobbying activities on behalf of underserved groups. And subsidizing public interest groups on behalf of the currently voiceless is a good cause for philanthropists, as many of them already know.”

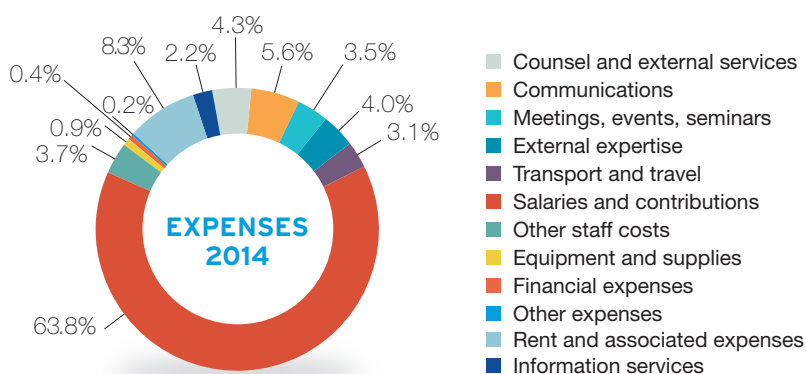
Robert J. Schiller,
Professor of Economics
at Yale University, “Finance and
the Good Society”, 2012

In 2015, a new fundraising strategy is being designed and implemented under the leadership of Benoît Lallemand, former co-head of Policy Analysis and Acting Secretary General (from April to December 2014) and new head of Strategic Development.

AUDITED EXPENSES IN 2014	(in Euro)
Rent and associated expenses	149,163
Information services	39,582
Counsel and external services (translation, lawyer, accountant, auditor, IT support...)	77,425
Communications (agencies, videos, web upgrade, social media, print, PR, fund-raising)	101,089
Meetings, events, seminars	63,284
External expertise (incl. Institut des Politiques Publiques)	72,061
Transport and travel	55,979
Salaries and contributions	1,148,665
Other staff costs (pensions and insurance)	65,766
Equipment and supplies (subject to depreciation)	16,524
Financial expenses (including VAT)	6,646
Other expenses	4,081
Total Expenses	1,800,276

Total expenses for 2014 were €1,800,276, or 8% below the €1,957,829 in the previous year. The main reasons for this are decreases in staff costs (- €50,538), in rent (- €33,043), and in meetings, events and seminars (- €52,641).

The largest expense remained staff costs, which accounted for 67.5% of the total (including pensions and insurance), up from 64.6% in the previous year. This reflects the fact that Finance Watch's main asset is the expertise and knowledge of its staff. Rent and associated costs were 18% lower than the previous year (€182,206 in 2013) as a result of the move to self-managed offices. The 2014 figure includes a one-off investment (included in the Equipment item) in furniture and other office supplies. The fall in expenditure on events, 45% lower than the previous year (€115,924 in 2013), reflects the choice of formats for events organised in 2014. Expenditure on external expertise, representing 4% of total expenditure, includes the final payment under a two-year research programme on the cost of financial intermediation commissioned from the "Institut des Politiques Publiques" in Paris (€27,011, about a third of the total for this item). The rest relates to consultancy expenses incurred by the policy analysis team in support of its core work programme.



Public affairs

Overview

The European election year 2014 saw the arrival of a new European Parliament, College of Commissioners and Council President. The focus of our public affairs work in the first part of the year was on completing dossiers before the pre-election deadlines, and in the second part of the year on establishing relations with incoming MEPs, new Commissioners and influencing the new political environment.

Summary of meetings

The public affairs team attended 131 meetings with policymakers and other stakeholders in 2014 (compared to 194 in 2013, and 143 in 2011-2012):

	European and national parliaments	Member state officials and politicians	European Commission, ESAs, FSB	Industry meetings	Others (students, academics, NGOs)	Total
Markets and asset management (MiFID, CMU, LTF, MMF, Shadow Banking)	18	1	5	18	2	44
Banking (bank structure, Banking Union, BRRD, CRD IV)	21	2	11	6	1	41
Retail and consumer issues (PRIIPs)	4	1	2	1	2	10
Change Finance! Campaign	15			2	1	18
Other (lobbying, Better Regulation, TTIP)	5	5	2	1	5	18
Total	63	9	20	28	11	131

Note: The table above includes formal meetings between Finance Watch staff and policymakers or financial industry representatives. It does not include informal exchanges and ad-hoc encounters, or meetings between Finance Watch staff and Finance Watch Members.

Finance Watch staff participated as speakers in numerous conferences, debates, round tables and other external events in 2014 in Europe.

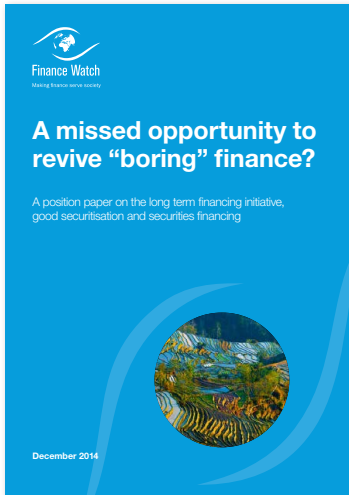
Participating in external events is a core part of Finance Watch's mission and our policy is to accept speaking invitations for events that are relevant and useful to our work, provided we have sufficient resources available to prepare and attend. Staff also participate as delegates in many other events.

"We need Finance Watch to bring together a range of groups' interests in financial regulation. We need your input to the Commission's work and I know how much my colleagues have appreciated your contribution to our many initiatives, expert groups and consultations over the last few years."

Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union, February 2015

Policy analysis

Finance Watch made 17 technical interventions in 2014 (compared to 22 in 2013), including six consultations (six in 2013), five reports and policy briefs (seven in 2013), two hearings in parliaments (nine in 2013), three open letters and a cartoon.



15 December 2014

Position paper "A missed opportunity to revive "boring" finance?" on long term financing, securitisation and securities financing

2 December 2014

Evidence to ECON Committee hearing on Bank Structure Reform

1 December 2014

Cartoon on long term financing of the real economy

27 November 2014

Letter to the Financial Times "Bank reforms will help lift Europe's struggling economy" on bank structure reform

31 October 2014

Consultation response on the Europe 2020 strategy

24 October 2014

Open letter to Michel Barnier on completion of his mandate

8 October 2014

Policy Brief "Should precautionary recapitalisations make taxpayers nervous?" on Banking Union and stress tests

3 October 2014

Model answers to ECON supplementary questionnaire for Jonathan Hill

30 September 2014

Consultation response to EC on impact assessment guidelines

30 September 2014

Consultation response to EC on stakeholder consultation guidelines

10 September 2014

Policy Brief "Too-big-to-fail in the EU" on regulatory actions to end TBTF

22 July 2014

Policy Brief "Structural reform to refocus banks on the real economy"

8 July 2014

Consultation response to EC on ISDS in TTIP

7 July 2014

Response to ESMA Consultation Paper on MiFID II/MiFIR Level 2 Technical Advice

7 July 2014

Response to ESMA Discussion Paper on MiFID II/MiFIR Level 2 Technical Standards

23 May 2014

Annual Report 2013

18 March 2014

Evidence to ECON Committee hearing on TTIP and Financial Services



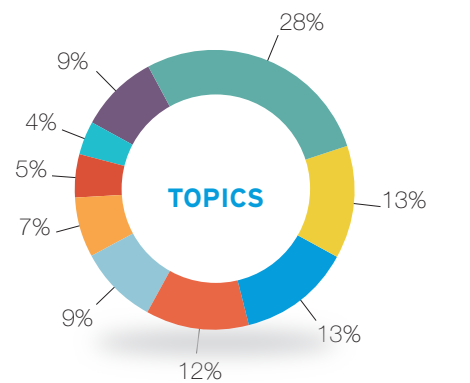
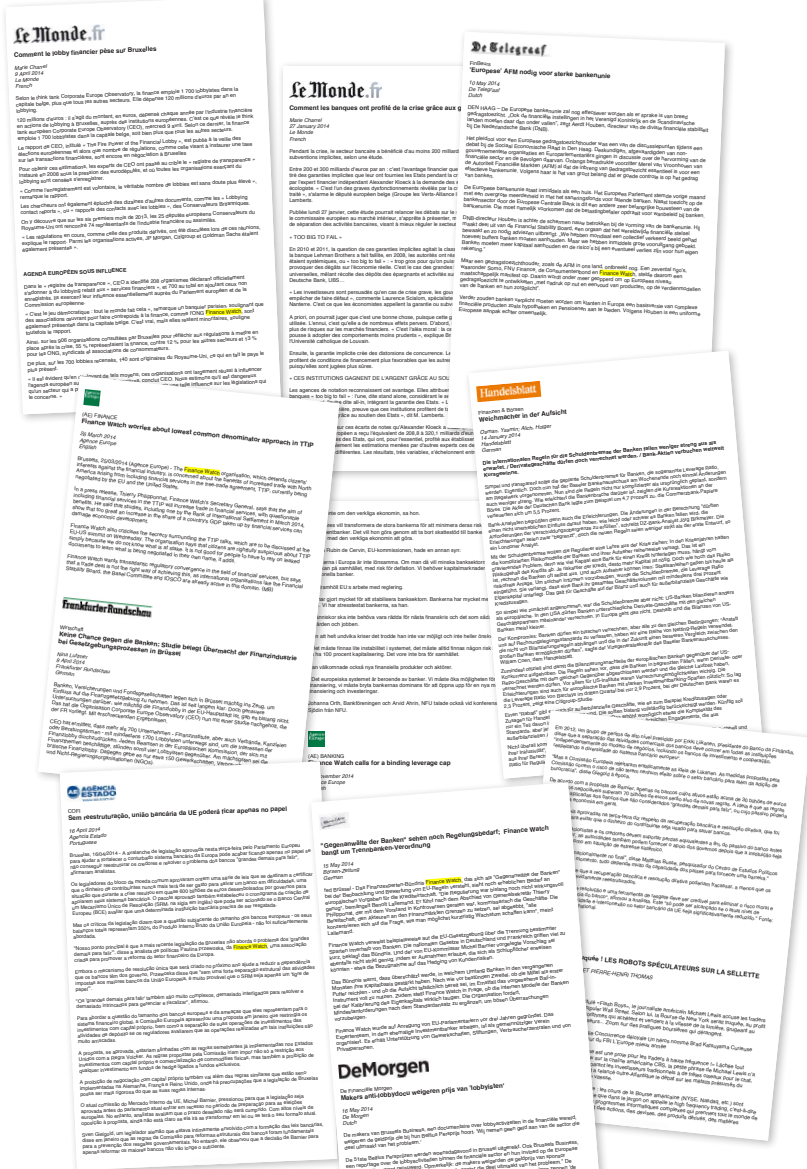
Communications

In 2014, **press coverage** of Finance Watch included 188 unique articles and broadcasts plus 62 duplicates (250 in total), compared to 277 unique items in 2013 and 300 in 2012. Around a third of the coverage was about banks, a third about lobbying, and the rest on consumer protection, TTIP and Finance Watch, with headlines such as “Finance Watch worries about lowest common denominator approach in TTIP”, “La Bourse est truquée ! Les robots spéculateurs sur la sellette”, and “Gegenwält der Banken” seen

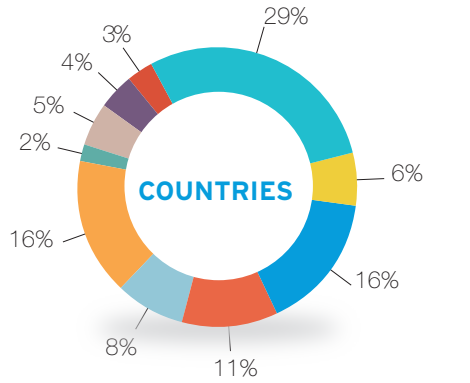
noch Regelungsbedarf; Finance Watch bangt um Trennbanken-Verordnung”.

The 14 press releases issued in 2014 (17 in 2013, 23 in 2012) achieved a reach of around 7,500 views each, with some significantly more (such as “Bank structure proposal has right objectives but fragile mechanism, unlikely to reduce too-big-to-fail banking unless strengthened”). The team interacted with 242 different journalists, resulting in publication in 148 different media sources.

TOP 10 Media (number of unique articles)	
DPA Insight EU	8
Le Monde	7
Agence Europe	7
MNI	7
Europolitics	6
La Tribune	6
Financial Times	4
Les Echos	4
Trends&Tendances	4
Mediapart	4



- Finance Watch & Lobbying
- Financial markets (MiFID, derivatives, FTT...)
- Bank structure
- Banking Union (including SRM, stress tests)
- Financial regulation in general
- CRD IV
- TTIP & ISDS
- CMU and Securitisation
- Others



- France
- EU Media
- Belgium
- Austria
- Germany
- Spain
- Others
- Switzerland
- UK
- USA

Friends of Finance Watch (numbering 8,468 at the end of the year, compared to 7,463 in 2013 and 6,090 in 2012) received ten **Friends' newsletters** in 2014, each published in three languages. The newsletters introduce Finance Watch's recent work together with articles of wider interest, such as local banking, how efficient finance is, or why we think financial services should be excluded from TTIP, to name a few. Anyone can subscribe to our newsletters for free from the website.

The team produced three **webinars** in 2014, on ECB stress tests, bank separation, and investment banking:

24 February

Why separate banking activities?

Separating banking activities is the reform that megabanks have pushed hardest against. This webinar explains why Finance Watch thinks structural reform is so essential to making the financial sector serve society and the economy.



24 October

The ECB Stress tests, are taxpayers at risk?

Two days before the ECB revealed its stress test results, Finance Watch's Paulina Przewoska (a former financial supervisor) hosted a public webinar to help journalists and the public know what to look for when the results came out.



16 December

What is investment banking?

While it is easy to imagine what commercial banking is about (deposits, loans, payment system), few people outside the financial sector know what happens inside an investment bank. This webinar, with former banker Aline Fares, gives an overview of what goes on inside these firms.

Our **Facebook and Twitter** communities both grew by around 35% to 14,885 and 5,285 by the end of the year.



We published **18 blog articles** (13 in 2013), including several from our guest blogger Fabien Hassan, on diverse topics such as the money supply, the German public banking system, and a historical look at the roles of public debt and corporate governance.

- Reforming the mega banks – two ways to deal with a tsunami
- A View From Germany III – Local solutions to a global crisis
- Money supply – a public service in private hands
- Interview with Robert Jenkins *“Bank lobby has been successful at fighting reform”*

We also hosted a **Friends of Finance Watch day** at our new offices in Brussels for members of the public to meet the team.

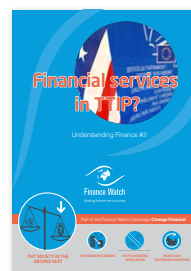


We produced **two multimedia educational units** as part of our **“Understanding Finance”** series, the first on splitting megabanks, the second on TTIP. These explain key areas of financial reform to the public and present Finance Watch's views in jargon-free language. They were also translated into French and German.

→ **“Splitting megabanks?”** was published on 21 March. It looks at why universal banks can become a problem if they grow too large or interconnected. It uses videos, infographics, cartoons and jargon-free text to explain concepts such as leverage and looks at the European Commission's legislative proposal on bank structure reform, as well as debunking the myths of the banking lobby against the separation of bank activities.



→ **“Financial services in TTIP?”** was published on 10 October and looks at the “Transatlantic Trade and Investment Partnership” (TTIP) being negotiated between the US and the EU. It explains what are trade agreements and market access rules, looks at the aims of TTIP, its interaction with financial services, and the case for and against various controversial aspects such as regulatory cooperation and ISDS (see page 36). It summarises Finance Watch's views on TTIP, transparency and whether we really need further financial trade liberalisation.



Events

Finance Watch hosted an expert symposium in London and an evening conference in Brussels. We also co-hosted two public conferences with Members in Brussels and Berlin, a German press event at our new offices in May, a Friends of Finance Watch evening at our offices in Brussels in July for members of the general public to meet the team, and co-organised with Finance Watch Members public pre-election events in Paris and The Hague (see Members' Activity, page 12).



21 May 2014 Expert Symposium, London

"From ESG (economic, social, governance) corporate communication to non-financial performance indicators: boosting the impact, legitimacy and market share of responsible investment"

In May, Finance Watch held its first expert symposium, bringing together 24 experts

from the financial industry, academia and civil society who would not normally meet to brainstorm policy ideas on socially responsible investment (SRI).

The discussion looked at how to define and measure the non-financial impact of responsible investment, and how to convince an even larger pool of investors and asset managers to adopt SRI. It resulted in a report with more than 40 recommendations, such as:

- Require fund managers to act on their clients' ESG preferences
- Educate the investing public, help them to put pressure on their fund managers
- Legal definition for funds that want to label themselves "sustainable"

- Adopt common ESG indicators and mandate ESG disclosure

Delegates included: Fidelity, Standard Life, Oddo Securities, Pictet Asset Management, ECOFI, EUROSIF, Caisse des Dépôts, Kepler Chevreux, GABV and Crédit Coopératif, SOMO, ShareAction, Christian Aid, Nordic Financial Unions, Réseau Financité, UN PRI, Carbon Disclosure Project, 2° Investing, Novethic, Carbon Tracker, Sustainalytics, University Of Zurich, MINES ParisTech, Impact Finance Management.

The event was hosted by Finance Watch with technical support from 2° Investing and Novethic, facilitated by Chris Hewitt from the Finance Innovation Lab, and financial support from Caisse des Dépôts.

Keynote from Roberto Gualtieri
MEP, chair of ECON



5 November 2014 Evening event, Brussels

"What finance for what growth?"

Around 130 people attended this after-work discussion to explore the right size and business models for a financial system that can support smart, sustainable and inclusive growth.

A broad-ranging discussion looked at the need to break down silos between financial and environmental regulations, to give priority to financing businesses instead of assets, to promote growth in the economy not the financial sector itself, and to promote diversity in banking and finance, among other things.

The event was accompanied by a Finance Watch factsheet summarising recent findings on the complex relationship between finance and growth.

Speakers:

- ECON Chair Roberto Gualtieri MEP (S&D, Italy)
- Sirpa Pietikäinen MEP (EPP, Finland)
- Jean-Louis Bancel, President, Group Crédit Coopératif
- Wim Mijs, Chief Executive, European Banking Federation
- Professor Thorsten Beck, Cass Business School, London



Introduction from Benoît Lallemand,
Acting Secretary General

5 November 2014
Conference co-hosted with Housing Europe, Brussels

“Housing Finance: Property Bubbles or Social & Ecological Resilience?”

This full day conference was organised by Housing Europe with the support of Finance Watch to look at the challenges facing the housing market and the financing of affordable housing in different European countries. The discussions included reflections on the role of public banks and subsidies, private bank lending and financial markets to answer housing needs across Europe.

Speakers included MEPs Philippe Lamberts, Paul Tang and Pervenche Berès, representatives from the Commission, European Investment Bank, OECD, Caisse des Dépôts and EBZ Business School, and more than a dozen housing experts including representatives of Housing Europe members from across Europe. The hosts were represented by Marc Calon, President of Housing Europe, and Benoît Lallemand of Finance Watch.



Pervenche Berès MEP,
5 November 2014

4 December 2014
Conference co-hosted with DGB, vzbv, WEED and FES, Berlin

“Banks and Financial Markets: Safe and Long-Term?”

More than 200 participants from politics, media, industry and civil society attended this one day event about bank regulation, long-term financing and the Capital Markets Union.

Speakers included MEPs Udo Bullmann (S&D) and Markus Ferber (EPP) and German MP Gerhard Schick, as well as representatives from the German Federal Ministry of Finance, European Central Bank, European Commission, academics, civil society and the banking industry. The event was co-hosted by the Friedrich-Ebert-Stiftung, WEED, DGB, Finance Watch and vzbv, and moderated by Finance Watch Member Harald Schumann from Der Tagesspiegel.



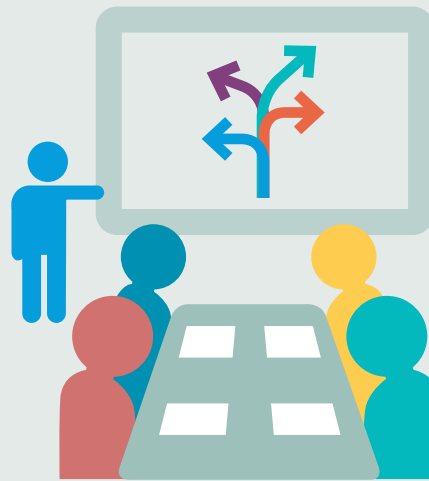
Objectives for 2015

The General Assembly approved Finance Watch's work programme for 2015 on 25 November 2014.

The team's core lobbying and research activity will focus on areas below (see glossary for acronyms):

Financial stability and banking

Bank structure reform (BSR), BRRD Level 2, revival of securitisation, shadow banking/FSB, Trading Book Review, CRD IV follow up (leverage and LCR).



Consumer and market issues

MiFID Level 2, PRIIPs Level 2/3, corporate governance and shareholder rights, MMF, ELTIF, securities law.





Finance Watch

Making finance serve society

Growth and real economy financing

CMU, LTF



Our other priorities for 2015

include fund raising, developing the Citizens Dashboard, the fostering of national networks and geographical expansion of the membership to Italy, Poland and the Netherlands.

Democratic issues

TTIP, Better Regulation



Glossary and abbreviations

ALDE

Alliance of Liberals and Democrats for Europe, political group in the European Parliament

AQR

Asset quality review, supervisory review of the quality of banks' assets. Along with stress tests, a core part of the ECB's comprehensive assessment of banks concluded in November 2014

Bail-in

Resolution tool that allows a troubled bank's unsecured debt to be written down or converted into equity

BCBS

Basel Committee on Banking Supervision. Forum for banking supervisors hosted by the Bank for International Settlements in Basel, Switzerland. Responsible for the Basel accords on bank capital adequacy

BRRD

Bank Recovery and Resolution Directive

BSR

Bank Structure Reform, legislative proposal to separate investment banking activities from core banking activities in order to reduce risks for taxpayers in the future

CMU

Capital Markets Union, one of the three flagship Unions presented by the Juncker Commission in 2015

Commission

European Commission, executive body of the EU. Duties include making legislative proposals to the co-legislators, the Council and Parliament

Council

Institution representing member states, co-legislator with the Parliament (see also ECOFIN) – formally the Council of the European Union

CRD IV

Capital Requirements Directive IV, legislative package to strengthen the regulation of the banking sector; the EU's implementation of the Basel III framework

DG FISMA

Commission Directorate General for Financial Stability, Financial Services and Capital Markets Union; created in November 2014 from parts of DG Internal Market and Services (DG MARKT)

EBA

European Banking Authority, one of the three European Supervisory Authorities (ESAs)

ECB

European Central Bank

ECOFIN

Council body comprising the finance ministers of each member state, signs off Council negotiating positions on the regulation of financial services, taxation and economic policy

ECON

Committee on Economic and Monetary Affairs of the European Parliament

EESC

European Economic and Social Committee, representing the social partners (employers, employees and other interests)

ELTIF

European Long Term Investment Funds Regulation

EPP

European People's Party, political group in the European parliament

ESAs

European Supervisory Authorities European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA), created in 2011 with the European Systemic Risk Board (ESRB) as part of the Commission's European System of Financial Supervisors (ESFS)

ESMA

European Securities and Markets Authority, one of the three ESAs

Eurogroup

Meeting of the finance ministers of the 19 EU member states that have adopted the euro as their official currency

FSB

Financial Stability Board, international body created in 2009 to coordinate global financial regulation

Greens

The Greens/European Free Alliance, political group in the European parliament

Green Paper

(Commission) document to stimulate discussion, consultation and debate on a given topic, which may give rise to legislative proposals in the future

HFT

High frequency trading / trader

HLEG

High Level Expert Group, used here to refer to the HLEG on Reforming the Structure of the EU Banking Sector appointed by the Commission and led by Erkki Liikanen, governor of the Bank of Finland

IMF

International Monetary Fund

IORP II

The EU's review of the Directive on Institutions for Occupational Retirement Provision, defines prudential rules for occupational pension funds

IOSCO

International Organization of Securities Commissions, association representing organisations regulating the world's securities and futures markets

ISDS

Investor State Dispute Settlement, mechanism for allowing investors to bring compensation claims against foreign states in certain circumstances. Part of TTIP proposal

KID

Key Information Document for packaged retail and insurance-based investment products

Level 1

Framework legislation (EU Regulations and Directives) proposed by the European Commission, adopted by the European Parliament and Council

Level 2

Delegated acts adopted by the Commission to facilitate the implementation of EU Regulation and Directives

LTF

Long-term Financing

MEP

Member of the European Parliament

MiFID II

Legislative package containing MiFID II, the EU's Review of MiFID, the Markets in Financial Instruments Directive, and the Markets in Financial Instruments Regulation (MiFIR)

MREL

Minimum Requirement for Own Funds and Eligible Liabilities, EU term referring to a bank's minimum required capital and bail-in-able debt

MMF

Money Market Fund

NGO

Non-governmental organisation

OECD

Organisation for Economic Co-Operation and Development

Parliament

The 8th European Parliament, serving 2014-2019, and co-legislator with the Council

PRIIPS

Packaged Retail and Insurance-based Investment Products (initially known as PRIIPs, before insurance-based products were added)

Resolution

The restructuring of a troubled bank by a public authority when there is no viable private solution and normal insolvency proceedings would risk financial instability

S&D

Progressive Alliance of Socialists and Democrats, political group in the European Parliament

SFT

Securities Financing Transactions

Shadow banking

Activities of entities not regulated as banks who carry out the functions of regulated banks, including credit creation, maturity and liquidity transformation

SIFI

Systemically Important Financial Institution

SME

Small or medium-sized enterprise

SRM

Single Resolution Mechanism

SSM

Single Supervisory Mechanism, led by the European Central Bank

Stress test

Supervisory examination of the resilience of bank balance sheets to stress scenarios (hypothetical external shocks). Along with AQR, a core part of the ECB's comprehensive assessment of banks concluded in November 2014

TBTF

Too-big-to-fail, term used to describe SIFIs

TLAC

Total Loss Absorbing Capacity, FSB term referring to a bank's capital and bail-in-able debt

Trilogue/trialogue

Informal meetings between the three main EU institutions (Commission, Parliament and Council) aimed to find early agreements on legislation

TTIP

Transatlantic Trade and Investment Partnership, a comprehensive agreement including a traditional free trade agreement as well as agreements to harmonise regulation

UCITS

Undertakings for Collective Investment in Transferable Securities, set of EU Directives on collective investment schemes



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