

Eight priorities for the new EU financial services chief

Valdis Dombrovskis has a full in-tray that includes securing the EU banking and capital markets union as he begins his term at the European Commission, writes **Willem Van de Wiele**

The new President of the European Commission Ursula von der Leyen, has laid out the priorities she wants Valdis Dombrovskis, the EU's new financial services regulator, to pursue over his five-year tenure. In her mission letter published on September 10, von der Leyen called upon Dombrovskis, one of the new commission's three executive vice presidents, to preserve and improve financial stability, protect savers and investors, and ensure the flow of capital to where it is needed. Specifically, she called upon Dombrovskis to tackle eight main priorities.

1. Banking union

Dombrovskis must focus on the completion of the EU Banking Union, notably by finalizing the common backstop to the Single Resolution Fund and agreeing on a European Deposit Insurance Scheme. These two elements are politically sensitive obstacles to the Banking Union that the previous commission was unable to tackle.

2. Capital markets union

The mission letter also calls on Dombrovskis to speed up work towards a capital markets union (CMU) and "to diversify sources of finance for companies and tackle the barriers to the flow of capital." In particular, the new commissioner must explore ways to make cross-border investments easier, to improve the supervisory system and to better harmonize insolvency and tax proceedings.

To achieve its goal of finalizing the creation of CMU, the Commission has launched a High-Level Forum on Capital Markets, comprising experts from industry and civil society chaired by Thomas Wieser, former Chair of the European Financial



Innovation and the digitalization of financial services are a priority, given the huge potential that new technologies bring to the sector



Ursula von der Leyen, the new President of European Commission, published her mission letter

Committee. Dombrovskis has asked the forum to submit a set of policy recommendations by May 2020 in order to "take CMU to the next level."

3. Green financing strategy

The mission letter also hands Dombrovskis the job of "developing a green financing strategy to ensure that we can direct investment and financing to the transition to a climate-neutral economy." In this respect, the vice president should work with the EU's partners to lead global efforts to scale up sustainable financing.

In a speech delivered in the Guildhall in London on November 15, Dombrovskis indicated that the Commission is moving quickly with negotiations for an EU classification system, or taxonomy, to define which economic activities are sustainable. In addition, he said that the Commission will soon start preparing another set of green finance initiatives, including the following:

- Incentivizing tools like green mortgage loans, and expanding the EU ecolabel to financial products
- Work on EU green bond standards, which could support local and regional authorities—and SMEs—to

issue bonds to assist in setting up sustainable projects

- On the reporting side, proposing measures in the EU's Non-Financial Reporting Directive, and asking companies to give sufficient and reliable information on their sustainability risks and opportunities and
- Supporting those most affected by the green transformation through a new Just Transition Fund

4. Fintech strategy

The EU financial services chief must also "put forward a fintech strategy to support new digital technologies in our financial system," according to von der Leyen. However, the mission letter does not give further details regarding the proposed content of the fintech strategy.

In a speech delivered to the European Parliament plenary on November 27, von der Leyen said that financial innovation and the digitalization of financial services are a priority, given the huge potential that new technologies bring to the financial sector—for example, by giving consumers better and faster access to finance. She promised to "present a new strategy for Europe to get the best out of fintech and compete globally, as we remove regulatory barriers between countries. Of course, we will make sure to address risks related to consumer protection, money laundering and terrorist financing, and data protection, to give just some examples."

With respect to the new fintech strategy, it will be very interesting to see how this strategy will evolve against the broader background of the development of policy on technology, e.g., new developments in competition policy with respect to big technology companies, developments in data protection and artificial intelligence.

The EC President added that



The interaction between the regulation of cryptocurrencies and anti-money laundering supervision will continue to evolve

“with the General Data Protection Regulation we set the pattern for the world. We have to do the same with artificial intelligence. Because in Europe we start with the human being. It is not about damming up the flow of data. It is about making rules that define how to handle data responsibly. For us, the protection of a person’s digital identity is the overriding priority.” These declarations echo the recent recommendations from the High-Level Expert Group on Artificial Intelligence (AI HLEG). These recommendations put forward a human-centric approach to AI and list seven key requirements that AI systems should meet in order to be trustworthy. These requirements will go through a piloting process expected to conclude with the presentation of a revised document in early 2020.

5. SME strategy

Von der Leyen also called upon Dombrovskis to develop a new public-private fund specializing in initial public offerings for small and medium-sized enterprises (SMEs) as part of an overall SME strategy. She noted that “all too often, SMEs move abroad to scale up because they find it difficult to get market-based financing in Europe.”

6. Anti-money laundering

The mission letter says that the new EU financial services chief must put forward “a new, comprehensive approach to fighting money laundering and the financing of terrorist activities.” This should focus on “better enforcement of legislation, better supervision, adapting to risks linked to new technologies and a stronger role in setting international standards.”

Vice president Dombrovskis said in a recent speech that he would see a lot of merit from handing specific anti-money laundering supervisory tasks

and their coordination to an EU body. The debate about a central European agency dealing with anti-money laundering supervisory tasks had already started prior to the installation of the new Commission following a number of high-profile cases in certain Member States. It will be interesting to see whether the new Commission will usher such a new agency into existence, and what other initiatives it will pursue in this area.

AML5 already brought cryptocurrency exchanges and custodian wallet providers within the scope of anti-money laundering regulations. With respect to the risks related to new technologies, it will be interesting to see how the interaction between the regulation of cryptocurrencies and anti-money laundering will continue to evolve.

7. Cryptocurrencies

The mission letter also states that Dombrovskis “should ensure a common approach with Member States on cryptocurrencies to ensure we understand how to make the most of the opportunities they create and address the new risks they may pose.”

Cryptocurrencies have already come under an increased scrutiny by policy makers and regulators in the EU (as well as in other jurisdictions). The debate around private companies launching blockchain digital currencies provides a clear illustration of this increased scrutiny. The French and German governments recently issued a joint statement stating that “no private entity can claim monetary power, which is inherent to the sovereignty of nations”.

The mission letter does not solely focus on risks and restrictive measures with respect to cryptocurrencies but also calls upon the new vice president to look at the opportunities they might present.



Deadline for submissions for CMU policy recommendations

For example, in Germany proposals exist that would enable banks to facilitate the sale and storage of cryptocurrencies.

8. Economic sovereignty

Dombrovskis must also “support our economic sovereignty, developing proposals to ensure Europe is more resilient to extraterritorial sanctions by third countries” and also ensure that the sanctions imposed by the EU are properly enforced, “notably throughout its financial system.”

In addition to the priorities mentioned above, a number of other important topics will likely appear on the agenda of the new Commission, such as the MiFID and MiFIR review. It promises to be a crucial and potentially transformational tenure.



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