POLITICO

Morning Financial Services: Marathon Basel talks — Retail investment backlash — New EU levy

by **Paola Tamma** · 2 HOURS AGO · 10 MINUTES READ

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MORNING
FINANCIAL SERVICES

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SNEAK PEEK

— EU countries and MEPs are huddling in a room today to hash out a compromise on global bank capital reforms.

— **The financial sector isn't happy with the European Commission's proposed rules on retail investment**, and they're being vocal about it.

— **The Commission is preparing a new levy based on EU countries' corporate income** in an upcoming package meant to raise funds for the EU's budget.

Hello dear readers and welcome to **Tuesday**! Send tips to ptamma@politico.eu, hbrenton@politico.eu, bsmithmey@politico.eu and jtreeck@politico.eu. Tweet us, too: @paolatamma, @hannahcbrenton, @bsmithmey, @johannatreeck.

DRIVING THE DAY

MARATHON BASEL TRILOGUE: Everything is on the table today as EU negotiators meet for a nine-hour trilogue on global bank capital reforms. Today's talks (which could even go longer) will power through an incredibly long list of topics — but look likely to leave the most contentious elements for what could be the final trilogue on June 15.

The timing: It's an early 9 a.m. start for EU negotiators from the Swedish presidency of the Council, which won backing from EU governments for its approach last week, and the European Parliament, before a break at 3 p.m. Then it's back to it during a 7 p.m. evening session scheduled to run until 10 p.m. — although it could go later.

Deviations on deviations? The two sides aren't far apart on the main EU carveouts from the Basel agreement — the transitional regimes for low-risk mortgages and unrated corporates — with both legislative bodies wanting some kind of time limit, yet with the possibility to extend further.

There'll be more debate about the other deviations from the Basel agreement put forward by both sides, including for nonperforming loans. Yet it looks more likely that any deal will involve a long list, rather than be whittled down — despite repeated warnings from regulators about the risks of moving too far from the Basel accord.

Securitization: A case in point could be securitization, where the European Commission has floated some draft material, seen by Morning FS. Parliament proposed lowering the capital charges for the biggest banks — using internal models — and Council could agree as long as that gets broadened to include all lenders.

The change comes after heavy lobbying from the industry. The Association for Financial Markets in Europe (AFME) said ahead of today's trilogue that Europe is still languishing behind the U.S. and Asia when it comes to securitization, arguing that it helps free up banks' balance sheets to lend to and grow the economy.

Crypto: There's also scope for a deal on crypto capital charges. The Commission has suggested a compromise where crypto will be classified into three risk buckets based on the EU's Markets in Crypto-Assets (MiCA) law, creating a transitional regime until the Basel Committee's final standards are adopted in EU legislation. There'll be punitive capital charges for Bitcoin, like under Basel's plans, but there won't be overall exposure limits.

Foreign banks: Council has also backed down a little on the rules for foreign banks, so national regulators will be able to require banks convert branches into fully fledged subsidiaries — potentially helping to bridge the gap with Parliament which wants consistent EU-wide requirements.

ESG: It's a bit less clear where the middle ground might be on environmental, social and governance risks. Still, there's no hard capital charges on the table, so the two sides should be able to find a way forward on how extensive to get on disclosures.

Next up: The ambition is to work through the whole package today, but the really touchy topics — foreign banks selling services into the EU, fit and proper tests for bank directors, and whether to apply the output floor throughout a banking group — are likely to require more work and go down to the wire on June 15.

WHAT'S ON:

— Basel III trilogue, 9 a.m. Brussels.

— Financial councillors discuss the reform of EU fiscal rules. Brussels.

MARKETS

INDUSTRY BROADSIDE AGAINST RETAIL INVESTMENT PLANS: Banks, insurers and fund managers today join forces to slam the European Commission's plans to boost retail investment. In a rare joint statement from all corners of the financial industry, eight big industry lobbies warn Brussels' plans are "far-reaching" and "raise multiple concerns" — even though the EU executive ditched an outright ban on inducements following industry pressure.

Disruptive consequences: "There are many prohibitions to the payment of commissions in the [retail investment strategy] proposals, and these would still have major disruptive consequences for the European financial sector and consumers' access to investment and insurance protection," says the statement from the European Fund and Asset Management Association (EFAMA), the European Banking Federation (EBF), Insurance Europe, the European Savings Banks Group (ESBG), Amice, the European Association of Co-operative Banks (EACB), European Association of Public Banks (EAPB) and European Structured Investment Products Association (EUSIPA).

Value is more than costs? Plus, the eight organizations take aim at the heart of the EU's plans to set up new "value for money" benchmarks to stamp out high-cost products — describing it as "regulation-driven price intervention into capital markets" that misunderstands that value is more than just price. "We therefore question the need, legal basis and consequences, in particular in terms of market competition, of such a policy choice," the statement says.

Substantial reservations: And that's not it. The lobby groups also say they have "substantial reservations" on changes to the "best interest" test for financial advisers — arguing it could just lead to consumers being offered the cheapest rather than the best-value product. Plus, they say the Commission's plans risk creating a "longer, more

complex and more burdensome investment process" through extra processes and requirements, and question the feasibility of the timeline.

MFS sidebar: The fight over the retail investment strategy, and how to regulate inducements, is far from over.

BUDGET

NEW EU LEVIES: This week the Commission is set to present a revamp of the bloc's long-term budget on June 20. On the same date, the Commission is set to present a new proposal for "own resources" — or EU levies — meant to raise revenue for the bloc and repay grants and interest of the EU recovery fund.

Context: Repayment of the recovery fund is set to start in 2027, and the EU's coffers are depleted, meaning that any common revenue streams would be needed. In 2021 Brussels made proposals to appropriate part of the revenues from the OECD Pillar 1 tax deal, the EU's cap-and-trade carbon market (ETS) and the Carbon Border Adjustment Mechanism (CBAM) in 2021, but progress has been slow, as countries are reluctant to give the Commission taxing powers. That's why the Commission will this month present a new package of "own resources", including a levy on EU countries based on aggregate corporate income, and updated revenue estimates from CBAM and ETS.

How would it work? The idea is to ask for increased contributions based on the share of aggregate corporate income in a country's gross national income, according to three people briefed on the matter who were granted anonymity to discuss confidential matters. The levy, known as a "statistical own resource," won't technically be a tax — although it would still require the backing of all EU countries.

Why? The idea of a corporate income levy is to rebalance the impacts of ETS and CBAM own resources, which disproportionately impact Central and Eastern Europe and the Baltics.

Pillar 1 needs to be ratified, most notably by the U.S. where most targeted companies are headquartered, but this seems unlikely given Republicans who oppose it control the House of Representatives. Hence this new levy would operate as an interim measure until (or if) an international agreement on Pillar 1 is reached. More here.

ECONOMY

ROLL IT BACK, ROLL IT BACK NOW: As Christine Lagarde was signing and exchanging letters with the European Parliament on increasing the transparency and accountability of the European Central Bank, she had a message to send back to the bloc's parliaments. Lagarde wants governments to pull the plug on any grants or subsidies put in place to deal with the energy crisis or else risk fuelling inflation. "Roll it back, roll it back now," the central bank chief exhorted.

Immense load: European countries' have forked out nearly €800 billion to households and companies to help shield them from soaring energy costs, researchers have estimated, with Germany topping the list. "As the energy crisis fades, governments should roll back the related support measures promptly and in a concerted manner to avoid driving up medium-term inflationary pressures, which would call for a stronger monetary policy response," Lagarde said.

LINDNER BACKS THE DIGITAL EURO: At digital trade fair Re:publica, German Finance Minister Christian Lindner promoted the introduction of the digital euro, a digital currency backed by the European Central Bank. This technology would enable innovative new applications and ensure that Europe would no longer have to rely on the U.S. for payment systems, Lindner said. In addition, it should give all citizens the direct ability to access central bank money without going through commercial providers, the member of the business-friendly Free Democrats added. "We are then not

dependent on Anglo-Saxon or American providers for electronic payment systems. And there's a way that you and I, that we all have a direct way to access central bank money, like just the coin, and we don't have to go through a commercial provider on that," Lindner said. The system should allow for a certain degree of anonymity, Lindner added.

ANTI-MONEY LAUNDERING

FRANKFURT'S AMLA BID: The German government is officially throwing its hat in the race to host the EU's future anti-money laundering watchdog, AMLA, from 2024. In a letter obtained by POLITICO's Jacopo Barigazzi, Finance Minister Christian Lindner writes that "The entire German government fully supports the enhancement of anti-money laundering regime in the European Union," and that's why "the federal government, the state of Hesse and the city of Frankfurt see it as our duty to provide AMLA with a new home in Frankfurt."

As we wrote last week, it's a crowded field, with competing bids from Austria, Belgium, France, Ireland, Italy, Latvia, Lithuania, Luxembourg and Spain.

It would make financial sense: The main point in favor of hosting AMLA in Frankfurt, Germany argues, is that the watchdog needs to be close to its targets, and Frankfurt is one of if not the continent's financial HQ, home to the European Central Bank and home to a number of homegrown giants — Deutsche Bank and KfW, Germany's development bank, to name two. "I am convinced that the financial center of Frankfurt will be a perfect fit for AMLA," Lindner wrote.

WHAT WE'RE READING

U.K. fines brokerage ED&F Man £17.2 million for role in controversial tax scheme, says Bloomberg.

The U.S. is using foreign policy to advance America's economic interests, Gideon Rachman writes in the FT.

THANKS TO: Sam Wilkin, Gabriel Rinaldi, Ian Wishart, and Zoya Sheftalovich.