

What will be the trends in financial regulation in 2019?

Expansión (Spain)

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In 2018, the financial regulatory reform approved after the crisis by the G20 and the Financial Stability Board (FSB) was considered virtually complete and the focus was supposed to be on implementing the reforms already initiated. Nevertheless, various initiatives have emerged throughout the year that will entail new legislative developments, mostly related to the implementation of the Basel framework and to the completion of two of the major European projects already under way: the Banking Union and the Capital Markets Union. In addition, lines of work have emerged in other fields, including the reform of the Euribor and Eonia reference indices, the use of new technologies and the departure of the United Kingdom from the European Union.

Despite efforts by regulators to provide global approaches to regulation and supervision, this year there have been indications that global cooperation and coordination are declining, with jurisdictions that allow applications of regulation that are more lax (USA) or stricter (such as those that apply to foreign banks in some countries). These asymmetries, which are partly the result of the ever diminishing pressure exerted by the effect of crises on decision-making, are a common concern for the parties involved: regulators, supervisors, the financial services industry and end-users.

Europe, for its part, has sought to move towards a more unified financial market with legislative initiatives to complete the Banking Union, the Capital Market Union and the Digital Single Market. These efforts were focused, with notable success, on finalising the negotiation of the Banking Package, which includes the review of prudential measures and those of the proposed recovery and resolution framework to reduce and share risks in the banking industry. Progress has also been made in debating the package of measures for the proper recognition and valuation of bad loans, in which the two backstops of provisions proposed by the European Central Bank and the Commission stand out.

However, limited progress has been made in the area of the Banking Union, regarding which at European level it was only agreed to establish a common support mechanism for the Single Resolution Fund, through the European Stability Mechanism (ESM), without reaching any agreements or achieving any concrete progress on the European Deposit Insurance Scheme (EDIS), which has been postponed until June 2019. As regards completing the Capital Markets Union, the Commission has made progress on some outstanding action plans, notably the one on sustainable finance, but there are still many other initiatives stalled in the long and complex European negotiation process.

Lastly, 2018 has seen consolidation of the digital transformation of the financial sector as a clear priority for European authorities as shown by the action plans of the Commission and the European Banking Authority. At the same time, in global terms the regulatory debate intensified, encouraging greater international cooperation in defining the new regulatory framework for digital financial services.

It is to be hoped that 2019 will be a year which sees progress in the same direction in terms of the authorities' lines of work, as anticipated in their recently published action plans. As a priority objective for the first half of 2019, and as announced by various European organisations, Europe will have to finalise the legislative initiatives aimed at completing the Banking Union, the Capital Markets Union and the strengthening of the EMU. If possible, this should be done before the European Parliament elections in May 2019, since it cannot be ruled out that in the next legislative period Europe will take up different strategic lines.

In short, 2019 will be an interesting year in the field of financial regulation, which will be marked by the capacity to respond globally to the challenge posed by domestic initiatives, tending towards less regulation and cooperation in the absence of a sense of urgency after the crisis; and at European level, by the impact of the electoral calendar on the various initiatives which are under way.

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