

BNY Mellon podcast

 Tue, Apr 23, 2024 4:39PM  25:56

SUMMARY KEYWORDS

capital markets union, eu, collateral, countries, policymakers, clients, securitization, depository, clive, bjorn, bank, europe, european, ben, european union, topic, mentioned, podcast, progress, proposal



You're listening to the ONVIF podcast, the show that explores the latest insights and discussions on global finance, economics, and policy for people who love staying informed about the rapidly evolving landscape of the financial world. Join us as we break down complex topics, interview key thought leaders, and provide essential insights to keep you informed about the evolving world of finance. Hello,



and welcome to this on Fifth podcast. My name is Clive Ward and I am the managing editor and Deputy CEO of on fifth. And today's podcast is in some ways, a prelude to an important event that the Association for financial markets in Europe and on Fifth are co hosting in Frankfurt on May the 28th. On European financial integration, this is the fourth annual conference that we've done on this, always these events have proved very, very useful in moving forward the discussion about a better integration of Europe's financial markets. The event is being supported by amongst others, our friends at BMI Mellon, and will bring together some of the leaders in European financial services both from public and private sectors, to discuss ways to improve the efficiency and singularity of Europe's capital markets. So I'm delighted to be joined for this podcast by two senior members of the BMI Mellon team with Bjorn Storium, who is Chief Executive Officer of the Bank of New York, Mellon SA and V and Ben pot, who is international Head of Public Policy and Government Affairs. Welcome both to Bjorn. And Ben, great to have you with us. Join, if I can start with you. I think we all know and we can all accept that progress on Capital Markets Union has been disappointed. And I think we can all accept that there is a rare consensus that we need Capital Markets Union or progress towards it to improve European financial services. So maybe we can start there on how this is impacting your clients and your clients point of view. How does the fragmentation that exists today impact their ability to run their businesses? And what are the main issues that they face?



Thanks, Clive, it's a pleasure to be here with you today. We touched 20% of the world's investable assets every single day, and we're in dialogue with our clients every day around that. And I think the starting point really needs to be when you look at Europe, and I have the pleasure of running the European bank, as you said, we need to be able to have capital flow

from one point to another within the EU 27. Without big obstacles or hurdles. That's the that needs to be the starting point. The reality when we listen to our clients is a different model, a very different model, unfortunately. And I just like to pinpoint it to an example stick to speak to an Italian insurance company that wants to be part of the green agenda and wants to invest say in Spanish solar farms or in Danish wind farms, right offshore wind, just to pick two examples. These are real life examples. This is a conversation that we had. It is a very different thing for them to invest in those two countries, in this case in equity, but the same holds true for bond investments. Think about the process that they have to go through to recoup taxes for instance, tax certificates, cross border tax certificates in these examples, very different processes amongst the EU 27 Some in some form paper based in some form digitalized. in some form, it takes them a few months to recoup the tax paid. In other forms. It takes them way more than 18 months. And it's very different processes. It's not harmonised at all. And this of course is the opposite of a harmonised market.



Is it as bad as it's still 27 different countries and 27 different markets. Is it as bad as that Yuan is already been at least some progress away from that.



So there is progress around the what's called the faster regime there is progress. It's minut. It's not yet where it needs to be just highlighted that one example. I mean, there are other things in the Capital Markets Union that are not yet finalised. But this is just one example. I think it is still in its infancy, unfortunately.



Yeah. And we'll come back on the on the taxon. And a little bit more detail in a second. But we've heard about it from your clients point of view beyond but what about from BM? Why melons point of view as a business operating in multiple jurisdictions and providing services to so many of the leading Pan European institutions? What are the constraints that you as a business face at the moment?



That's a good question to ask. And I think one of the key points that I could mention is the trustee of depository business, which is one part of our asset servicing operations. Of course, we in the European Union right now, are forced to essentially have 27 All banks are would be forced to have 27 type of banks because there is no typical bank passport within the European Union. So what you see in retail, for instance, retail banking, this is none of our business. But retail banks are our clients, for instance, you can indeed passport and provide services cross border. And what you see in investment banking, and again, all the large investment banks would be our partners and clients, they can indeed passport within the European Union, we with our depo bank product cannot. So we would be forced to have 27 separate depo banks within the European Union. And this example, clearly shows as well, we're not yet there in the Capital Markets Union, where we would want to be and frankly speaking need to be because

what happens as a practical reality is, of course, we don't have 27 table banks, and you can single out any small country that you would like, it's obvious that it becomes a very simple calculation, is the Are we able to recoup the cost that we would have to spend for a double bank in one of those countries or not? And if the answer is no, then you're not investing. And what it leads to is essentially, within the EU 27, we ended up having countries where we do have a table bank is mainly the logical ones. And there are countries where we don't have a typical bank. But this would preclude the funds that you would have in those countries or other users of our developing services, from being able to tap into what larger countries have. So it's a striking example of being unequal, and frankly, speaking unjust to participants, particularly in smaller countries, this is something we have to take away.



Do you see that as an issue, which means that you are not able to be active in certain countries that you would like to be? Or is it even broader than that, that you would just like to be able to be active and provide your services across the 27 member states.



It's both a we we cannot provide for economic reasons, we cannot provide for economic reasons, in a smaller country, a service that the clients in the smaller country are demanding from us. And rightly so. So you have clients in smaller countries and essentially, are not able to tap into a service that we can provide in larger countries and globally, for that matter to outside of the European Union, to our clients. That's a clear, uneven situation. And it's hindering our business, as per your question, Clive. But it also hinders our clients, tapping into what they would be able to tap as services in a competitive market, in larger countries, clearly unjust.



Understood, Ben, obviously, in your role as Head of Public Policy and Government Affairs, you're, you're thinking about ways to engage with policymakers on topics such as this and be honest mentioned, the lack of the depository bank passport. So you know, he's mentioned some of the issues that he's raised. But other discussions around a path to solving this particular issue?



It's a great question. First of all, hi, from my side as well, great to be on this podcast. And I would say, let's zoom out for a moment and think about how we solve for this kind of capital market conundrum, if you can call it that. And, you know, from our side, we always think about it in three different buckets, you have the bucket of demand for capital market assets. And actually, for those of you who are on this podcast listening and saying, Oh, you haven't mentioned the letter report, yet, I will mention it here. Now, we obviously had the publication of the letter report in the last 24 hours at the time of recording this podcast, I should say. And in that it's been a lot of focus on the demand side for capital market assets. How do we really drive that across Europe? Right, this idea of a European savings products, tax incentives or investing in European long term investment funds, so a lot of focus on on the demand side,

then on the supply side, there's been a lot of discussion around how do you create these assets that allow investment in infrastructure products, the LTF in the EU, the ELTE have in the UK, securitization being back on the agenda. And then you have that intermediary piece that that infrastructure piece that brings the two together, and clearly that's the space where we're working on. How do you make sure you connect demand and supply and clearly we have a role to play in that and having a depository passport across the EU 27 To do that, effectively is a is a key piece in that puzzle. So you know, we think, as the EU embarks again on a kind of revival of the Capital Markets Union that needs to be on the edge And and we think it helps to think about it in these three different discrete buckets. And we are seeing a lot of activity and all three of them. And we hope that at least in the intermediary bucket, there will be space for reconsidering a depository password, I should make one important point, which is there's been a step in the right direction. And Clive earlier on you asked your neck of army making any progress at all. And I do think it's fair to say that we are making incremental steps in the right direction. So under the FMD review, we have the final legislation, which allows for cross border depository services in certain circumstances. So again, the conditions around it, but at least it is a step in the right direction, which we very much welcome.



Yeah, and I'm sure but we would like to all wake up one morning and find the Capital Markets Union to be complete, there will be incremental steps on the way to it. And interesting to hear from you that on the depository bank passbook side, you think there is there is some progress and some discussion, it is at least on the agenda. Bjorn already mentioned tax, it's obviously a major issue. He mentioned the faster withholding tax proposal, any updates you can give us, Ben on on what's happening, then I suppose the issue of tax more generally is a difficult one, isn't it? Because we're not talking about a fiscal union. Here. We're not talking about harmonised tax across the EU. But we are perhaps talking about harmonised tax in the interest institutional space that can benefit the EU as an economy.



Absolutely. And actually picking up on the point of incremental change, right, we see faster very much on that kind of roadmap. And exactly as you say, Guys, the faster proposal is not about aligning tax rates. It's about aligning processes for withholding taxes for how to reclaim withholding taxes. And it's exactly that kind of more operational elements where we think there's a lot of scope to improve the status quo, which Espeon set out earlier, is different from one member state to another. And when you look at the faster proposal that the commission put on the table, there were loads of very good elements in there. When you think about the introduction of electronic tax resident certificates, that's very much a step in the right direction, a common reporting obligation and common standards, messages for refund requests. And then probably the most important one to focus on either relief at source or at least a quick refund process. All of this is important for our clients who want to invest in the EU and in the single market now. So often, we've seen this time and time again, you know, in the political negotiation process, those proposals get watered down. And we are a little bit nervous that we're losing some of the ambition and the faster proposal. And so you know, there's real in our view, a need to reengage on this facet proposal, make it more ambitious and go back to the original objectives behind this. And if we are serious about building that Capital Markets Union

and taking a decisive step in that direction, having a common withholding tax return process. That's fast, it's efficient. That's, you know, there has common reporting across the EU 27. We think that's a really important step.



Thanks. But let's talk about something even perhaps a broader, broader, larger issue. And that's surrounding fragmentation in market infrastructure and regulations that particularly impede the flow of securities capital, which can of course, harm the systemic resilience of the European financial system, how should policymakers optimise asset to collateral? What approach should they be looking at?



Thank you very much. Thanks, nice. Look, from a 10,000 feet perspective, and you'd expect this from an international firm that operates across the globe, fragmentation is always a bad thing. It basically reduces the ability to pull collateral in one space. So from a kind of global, holistic perspective, we would say, you know, fragmentation of infrastructure, wherever it occurs is not the kind of desired outcome from the financial services perspective, from a fund that operates cross border. When we zoom in to a world that is not perfect, of course, we will end up with different collateral pools in different infrastructures. So the the increased focus needs to be on how do you increase collateral efficiency? How do you make sure that you can move collateral quickly from A to B? And how do you make sure that the market participants can pull collateral as much as possible? So, you know, when you think about the role that we play in the collateral space in providing tri party repo services, collateral management services, it's all about efficiency gains, making sure you're able to deploy the collateral words required at the infrastructure where it's required in that kind of support. And using examples here, no bilateral margining cleared margin calls. So what we are really keen from a policy perspective to Chief is a world where market participants have the flexibility to pool the collateral as much as possible in one place, and then allow it to be efficiently deployed wherever it is required. And at the moment, we've seen a plethora of different rules that are not fully aligned. So you have some bilateral margining rules where you know, the the requirement to post margin is relatively flexible, so people can hold it with different providers, you have the CCP margin rules, which are much more restrictive. So you have loads of the outcome of that is that you create loads of different pools of collateral, and therefore, the efficiency and deployment of that collateral is not as efficient as it could be. So that's one area where we think policymakers need to devote attention, again, in the context of Capital Markets Union to make sure that we achieve greater efficiency and greater use of collateral. So that would be, I think, our view on how we can improve that particular aspect. And beyond, I think you want to come in as well.



To put it simple. I would encourage policymakers to listen to clients of us. Because what our clients and these are, by the way, by side clients and sell side clients who are on our platform, what are they looking for, essentially, what are you looking for being a client, on a tri party or repo platform, you're looking for two things, I think, number one, you're looking for the broadest and deepest platform, one large pool that you can access. And number two, you're looking for a platform operator, a provider, in why men in this case, who is stable, sound, and

will not go away. And anything that deviates, particularly on the first item that clients are looking for, both sell side and buy side, anything that deviates from this highly efficient pool, and is splintered, and makes the pool smaller, ie less deep and less broad in terms of asset classes, and the terms of geographies that you invest in is perceived as a bad thing to do. That's the model. Think you're right.



And I think it's interesting to remind policymakers and politicians that they should talk and listen to the major financial institutions in the region who are absolutely crucial to the continued economic growth of Europe as a region. So I absolutely agree with you. I'm struck by the fact that we've been speaking for nearly 20 minutes on Capital Markets Union, and we barely mentioned the topic of securitization. I think we all know the numbers, don't worry with that more than 70% of corporate loans in Europe sit on bank balance sheets, whereas in the US, it's the other way around and 80% are actually securitized in the capital markets. We're all familiar with that argument. We've all heard that securitization is key. But we don't see much progress beyond that, how, how can that progress be accelerated?



I'm actually hopeful that on that very subject of securitization, we are finally turning the curve. And we'll see progress. And I'm hopeful here. You mentioned the numbers. By now I have the impression, and all the policymakers or the regulators, but also the investors and the associations that that we are in dialogue with these numbers have sunken in, it's not news to anyone any longer. And the direction of travel also seems to be clear for everyone. And if I may say agreed by everyone now. So and this is not just France and Germany. But of course, they are pulling ahead as two large countries and they seem to be in alignment. This is also an you can speak to the association of banks in both countries. This is also high, very high up on the agenda of these associations. And I think if if you were to ask them, the associations as industry bodies, and if they were to pick one single item in the Capital Markets Union, where progress will now finally come, it would most likely be the topic of securitization. So I'm somewhat I'm somewhat hopeful that we are turning the curve there. And that we are indeed and you did exactly that in your question, studying what we see in the United States and trying to apply at least the good things of that in Europe in the future. So I'm hopeful that we elections are coming up in May, in the European Union, in the next parliamentary sessions that this will be coming up on the agenda and being executed.



And I think that's a very important point and Dawn we are we are approaching a new era. In the EU, we see under Vandelay. And we've seen a lot of attempts to improve the competitiveness of European financial markets. We have people like Draghi writing reports on competitiveness, and so forth. I mean, this is, this seems like a real turning point moment potentially, in this debate, which everyone has become very frustrated by. So do you think the political will is there now, do you want do you think as well, you know, clearly, there is consensus in financial markets, but in the end, it's the it has to have a political will to actually push this forward.



think there is Clive, you mentioned the draggy report, you mentioned the whole topic of competitiveness. I think this has deeply sunken in now that Europe is lagging in competitiveness. And if you think about the other two large blocks or countries ie the United States and China, I think it has sunken in, that Europe needs to get its act together within the EU 27. This is the lever that we can pull as Europeans, you cannot really determine to a large degree, what happens outside the external factors outside the European Union, but you can within the European Union, ensure that your competitive ness is increased by finalising the Capital Markets Union, for instance. So I think it has sunk in and you mentioned the Draghi report, Ben spoke about the letter report that just came out. I think those are two good signs. What needs to happen, though, and this has been our thing as well is we need to rally the troops or the Europeans all of us around the idea. And why didn't that happen in the past? Maybe Capital Markets Union as a term that we've been using for a decade. Now? Of course, maybe it isn't as much as we would like it as bankers and financial markets, journalists cliff, right. Maybe it doesn't rally the troops as much. And that's why when I read the letter report, the thing that there's many things to like about it, but the one thing I really liked about it is calling it a savings and investments union, rather than a Capital Markets Union, because that hits the nail on the head, what is it that we're actually trying to solve? We're trying to solve capital, that one person or one institution has to flow as easy as it can. That's the savings part to where it's needed. That's the investment part. So I think it's actually brilliant, calling it a savings and investments union, I would hope that helps to act as a flag, right, that you can hoist and then rally the troops because this is not about banks. It's not about the capital markets that exist in isolation. This is about savings and investments that touch really every European, every corporate, every public sector entity. And of course, the banks and the investment industry. Yes, but it's an integral part. Yes,



Ben, please.



It's fun to come come in, as well. And just make the point that when we think about all these reports, obviously an implied there was something embedded in your question, which was no do we actually think the political will is there this time around? Because we've been here before we've had a Capital Markets Union action plan, we had a high level forum. And I think what what gives us confidence is actually the starting point for the letter report. And for the draggy report was not necessarily financial services was the single market, how can we improve the single market and actually financial services and the single did the savings investment union that NBN just spoke about was the second recommendation in that report, it shows you how high up on the agenda and political agenda, this topic is. And I think that gives us a certain level of confidence that maybe this time round, there is enough of that political momentum to carry it forward. Obviously, as the British would say, the proof is in the pudding. Right? So we kind of need to see how it actually translates into real action, tangible action and overcome some of the challenges we've seen in the past where, you know, there's been a level of technical detail, then the rails the overall policy objective, and I think there's, we need to be careful not to fall into those traps going forward.



Absolutely agree, Ben. And I think it's very interesting, actually, on this topic that we saw very recently that the bank deposit insurance scheme has passed its first hurdle in the EU Parliament, which is a good sign. There wasn't unanimity in the voting that but it's passed at that level. But of course, things like that still need approval from national parliaments, national governments, and let's see whether that comes through but, but it's it I think it's an encouraging note to end on. Thank you both very much indeed, for the insights that you've given us today. This is undoubtedly going to be a big topic of conversation at our event in front For on May the 28th and do please go to the either the Acme or the ONF websites to make sure you register to attend the event and it includes really high level speakers such as Jen's vibe and the chairman of Supervisory Board of Commerce Bank, Lorenzo Bini smaghi Chairman of Societe Generale Margarita Delgado, who is the Deputy Governor of the Bank of Spain, and indeed, Bjorn who will be representing the NY Mellon. So thank you again to Ben and Bjorn, and we look forward to seeing you all in Frankfurt on May the 28th. Thank



you for joining us for this edition of The ONVIF podcast. If you found today's conversation engaging, make sure to stay tuned for additional thought provoking discussions on worldwide Finance, Economics and Policy by subscribing to our channel. Stay connected of the latest developments by following us on our LinkedIn page on Fifth Economic and Monetary Policy Institute.