Finance Watch is a European, not-for-profit association of civil society Members dedicated to making finance work for the good of society. We are completely independent from the financial industry and from political parties.

The financial sector lobbies hard against financial reform and employs thousands of people to make its case. But policymakers must hear society’s side of the story – in its diversity – if they are to reform the financial system so that it benefits the entire community.

Finance Watch was established as a counterweight to the private interest lobbying of the financial industry. Our mission is to speak on behalf of citizens and the public interest in the area of financial reform and regulation (public interest advocacy), and to provide expertise and support for other civil society representatives to do the same (capacity building).

Finance Watch’s Members include 48 European civil society organisations and 27 expert individuals from 13 different EU member states. Our Members represent millions of citizens from all over Europe. We have a professional secretariat of 12, recruited from the financial and related sectors, and more than 30,000 supporters, followers and donors among the general public.

We advocate 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.

The association works mainly at European level and from time to time at national level. Our head office is in Rue d’Arlon, Brussels, close to the EU legislative institutions.

Finance Watch was registered as an Association Internationale Sans But Lucratif (international non-profit association) under Belgian law on 28 April 2011 and held its founding general assembly in Brussels on 30 June 2011. It celebrates its fifth birthday in 2016.

Our goal
A sustainable banking system and a financial system built around investing not betting.

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.
In an intensive year working on bank structure reform, Capital Markets Union and TTIP among others, our association achieved some notable successes in 2015, which are all detailed in this report. Finance Watch also continues to provide first-rate support to civil society organisations active in financial regulation including my own, Housing Europe, building the capacity of civil society to make its voice heard in financial regulation.

We have a new Secretary General, Christophe Nijdam, who has started up and is doing well in its role. 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.

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Finance Watch is a civil society platform for consumer groups, unions, NGOs that work on a range of social, development, environmental and economic reforms, research institutes, housing associations and others. Our Member organisations represent many millions of EU citizens.

Our public affairs team supports Members in their Brussels advocacy work, and conducts its own advocacy directly on a number of legislative files. Legislative files that we worked on in 2015 include: Capital Markets Union, MiFID II level 2, Bank Structure Reform, PRIIPs level 2, TTP and Better Regulation. See Part 2 for more details.

The communications team briefs the media and promotes our ideas to the general public by producing vivid informational tools, such as cartoons, videos, blogs, social media and webinars. The secretariat’s operations team helps with events, fundraising and governance, among other things.

If you share our mission and are either a civil society organisation or an individual with relevant professional expertise, you could apply to become a Member of Finance Watch using the form on our website.

There is no joining fee. Members are expected to participate in the network’s activities and share either their expertise or the civil society viewpoint they represent. Annual membership currently costs EUR 1,000 for civil society organisations and EUR 80 for expert individuals. All applicants must be voted by the Committee of Transparency and Independence to make sure they have no conflicts of interest from the financial industry.

As a Member, you can:
• work with other civil society representatives to increase your impact
• 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
• attend Finance Watch events around Europe
• participate in Finance Watch’s governance and strategic direction
• network with other civil society organisations at our meetings and workshops.

OUR DAY-TO-DAY WORK

The secretariat’s policy analysis team writes policy papers and consultation responses on regulatory files and other financial topics that have a strong public interest dimension, and promotes our ideas to the general public by producing vivid informational tools, such as cartoons, videos, blogs, social media and webinars. The secretariat’s operations team helps with events, fundraising and governance, among other things.

Finance Watch firmly positions itself as a key partner to NGOs who are working on different aspects of financial regulation in Europe, sharing intelligence and strategies and also doing joint activities with the civil society community in Brussels and in Member States, since it is clear that we don’t need to do just advocacy work but also public campaigns to put pressure on decision makers. We’re looking forward to continue working with them.

Anne van Schaik, Accountable Finance Campaigner, Friends of the Earth Europe (Member of Finance Watch)

The public interest of finance often snows under in dazzling technical complexities and intense lobbying for the large financial interests of firms. Finance Watch uncovers it and puts it at the forefront, where it belongs.”

Werner Bijkerk, Head of the Research Department, IOSCO General Secretariat

Using this expertise as a basis, Members and staff meet in working groups to coordinate their advocacy towards EU and national policymakers, for example deciding which policymakers to meet and what to say, organising or speaking at public events, and coordinating campaign messages. The membership, outreach and expertise coordination team facilitates this activity, as well as scouting for new organisations to expand the membership and interacting with other civil society networks.
WHO’S WHO

The people behind Finance Watch

Finance Watch is a European membership association supported by a professional secretariat. At the end of March 2016, our membership counted 48 civil society organisations and 27 expert individuals, who together form the General Assembly, Finance Watch’s highest governance body. The association is governed by a Board of Directors, which includes six members and two external directors, and is advised by a three-person Committee of Transparency and Independence. The association’s secretariat had 12 staff at the end of the 2015, including experts recruited from the financial and related industries.

LIST OF MEMBERS AS AT 31 MARCH 2016

ORGANISATIONS

BELGIUM
› Centre national de coopération au développement (CNDI-TT/TTF)
› Centrale Nationale des Employés (CNE)
› Réseau Financité

DENMARK
› Danish Confederation of Trade Unions

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

FRANCE
› ATTAC France
› CGID Terre Solidaire
› Centre des Jeunes Dirigeants (CJD) (joined 2016)
› Coelac Théodore (joined 2015)
› Confédération Générale du Travail (CGT)

GERMANY
› Deutscher Gewerkschaftsbund (DGB)
› Fonds für Arbeit
› Heinrich-Böll-Stiftung
› SIWIND e.V. - Institut für Ökonomie und Ökumene (SIOE)
› Stiftungsfonds Ökonomie und Umwelt

ITALY
› Federazione Autonoma Bancari Italiani (FAB-IT)
› Federazione Italiana Reti di Servizio del Territorio (FIR- IT)
› Fondazione Culturali

THE NETHERLANDS
› Consumerenbond (joined 2016)
› Stichting Onroerend Matrijzionalen Ondernemingen (SOMO)

SWITZERLAND
› Observatoire de la Finance

UNITED KINGDOM
› Global Justice Now (formerly World Development Movement)
› New Economics Foundation (NEF)

UNITED STATES
› Positive Money

FINANCIAL WATCH ANNUAL REPORT 2015 PART 1 WHO’S WHO

EXPERT INDIVIDUALS

BELGIUM
› Rym Ayadi, Senior research analyst on financial institutions, financial services, financial markets and regulation
› Robert Thyss, Retired Director of International Affairs at NDFU Euronext (Paris)

FRANCE
› Christian Chavagneux, Economist and journalist, Deputy editor of “Alternatives économiques”
› Gregor Colin, Chief Economist at BCE-ECB
› Rainer Gerger, Retired Director of the Cooperation Branch Germany at OECD Paris
› Patrick Kleinknecht, Engineer at the French Ministry of Defense
› Pierre Lichtenwiler, Securities services and project manager
› François-Marie Monnet, Independent Family Wealth Surveillance
› Dominique Peru, Researcher for financial economy at the University of Angers
› Laurence Schiakam, Professor of Economics at the University(joined 2015)
› Stéphanie Serva, Associate Professor of Finance, University of Cergy-Pontoise

GERMANY
› Stefan Cahe, Consultant in procurement controlling and audit
› Christian Kellermann, Economist, Friedrich-Ebert-Stiftung, Stockholm, Author
› Rainer Lenz, Professor of International Finance at the University of Applied Science in Bielefeld
› Suleika Reiners, Policy Officer for Future Finance at World Future Council
› Harald Schumann, Senior Reporter with “Der Tagesspiegel”, Author
› Hans-Joachim Schwabe, Retired Bank manager of Commerzbank

GREECE
› Emmanuel Trouzilekas, PhD researcher for social finance and monetary innovation at Panteion University (joined 2016)

POLAND
› Marta Kuchna, Associate Professor of Management Theory, Warsaw School of Economics (joined 2015)
› Marta Grzegorzewska, Associate Professor of Finance, University of Gdansk

UK
› Thomas Lunes, Associate Lecturer, Goldsmiths, University of London, and Independent consultant
There were five stand-out areas in our advocacy work in 2015. On MiFID, we closely monitored the drafting of technical rules on position limits for commodity derivatives, which after pressure from Finance Watch and its Members are being revised to be finalised in the summer of 2016. In retail financial services, we called for ambitious proposals to help retail investors beyond the Commission’s green paper on cross-border barriers to retail financial services. We also advocated for putting an end to sales inducements as much as possible, and for a meaningful Key Investor Information Document when buying a complex financial product. On bank structure reform, the ECBG Committee rejected an industry-friendly Parliament position that would have significantly weakened the reform. We used a Parliament hearing and a Commission consultation to reject the fallacious idea of a trade-off between financial regulation and growth and jobs, which underpins the Capital Markets Union and the “cumulative impact of financial services regulation” projects. On Better Regulation, the final test of the Inter-Institutional Agreement on Better Law-Making reflects our requests on impact assessments and transparency. The team attended 205 advocacy meetings and appeared as a speaker at 62 external events.

**POLICY ANALYSIS**

We published 19 technical interventions, including 12 consultation responses, as well as producing speeches and presentations throughout the year. We published three short non-technical briefs popularising the content of our policy paper on capital markets union and securitisation. Together with the public conference that we hosted in February, these helped to establish Finance Watch as the leading public interest voice on Capital Markets Union and the revamping of securitisation. We published two reports debunking myths about bank structure reform and responded to consultations to secure our Level 1 wins on MiFID and on PRIIPs at Level 2. We joined the new political debate about the impact of prudential regulation on growth and competitiveness.

**COMMUNICATIONS**

Finance Watch published 13 press releases and featured in 226 items of press coverage from around Europe. We published 27 blog articles on topics including fossil fuel divestment, crowdfunding, microcredits, liquidity, bank structure reform, Better Regulation and Capital Markets Union, and placed 77 op-eds and open letters in the press. We published eight cartoons, three webinars and an online educational unit on financial markets. Our Facebook and Twitter communities grew to 18,140 (up 22%) and 6,555 (up 24%). The 9,660 Friends of Finance Watch received 10 monthly newsletters.

**EVENTS**

Finance Watch hosted two public conferences in Brussels in 2015: “The long term financing agenda, the way to sustainable growth?” on 4 February, two weeks before publication of the Commission’s green paper on Capital Markets Union, and “Confidence, ethics and incentives in the financial sector” on 17 November, which included a panel on retail financial services three weeks before publication of the Commission’s green paper on retail financial services. We also organized, with the support of other civil society organizations, a conference “Finance and Climate: How to shift the model?” in Paris on 5 November, ahead of the COP21 talks in Paris the following month.

**STAFF AS AT 31 DECEMBER 2015**

**PROFESSOR ROBIN JARVIS** (BRITISH)
Professor of Accounting at Brunel University, member of UC Financial Services User Group, member of the EBA Banking Stakeholder Group, chair of the EBA-Standing Technical Working Group on Consumer Issues and Financial Innovation, Special Adviser to the UK’s Association of Chartered Certified Accountants (ACCA) (elected by General Assembly on 8 April 2015)

**MARIE-JEANNE PASQUETTE** (FRENCH)
Lecturer in journalism in economics and finance at Panthéon-Sorbonne University, chair of Sphere Finance Publications, editor of minibourses, former Financial journalist, member of Institut Français des Administrateurs (IFA) (elected by General Assembly on 8 November 2015)

**HENRY WONG, SECRETARY GENERAL**
French, former corporate and investment banker and financial analyst – Responsible for the strategy, communications and role of the Secretary-General: Member of the Stakeholder Group of the European Banking Authority (EBA) since February 2016

**JOSEF MARLIER, HEAD OF PUBLIC AFFAIRS**
Dutch, former financial industry lobbyist; Advocacy on securities markets and retail issues

**KATRYNA DEGARA-SERBIK, SENIOR PUBLIC AFFAIRS OFFICER**
Polish, former financial supervisory adviser: Advancing securities markets and capital markets

**JESSICA FORRELL, PUBLIC AFFAIRS OFFICER**
Italian, previous roles at the European Parliament and New York State Assembly: Advocacy on retail and institutional issues

**WILFRID GIBBINS, HEAD OF STRATEGIC DEVELOPMENT AND OPERATIONS**
British, former clearing and settlement banker – Fundraising, Strategy, Business Development and External Affairs

**HÉLÈNE BON, HEAD OF POLICY ANALYSIS**
French, former bank trader – Manages the policy analysis team, specialises in financial markets, investor protection and banks

**RIH BIIS EMAA, SENIOR POLICY ANALYST**
Dutch, former financial industry lobbyist: Advocating securities markets and capital markets

**ANNIE LAURAT, SENIOR POLICY ANALYST**
French, former investment analyst, specialises in financial markets, investor protection and banks

**SCOTT BASHAM, FINANCIAL OFFICER**
French, formerly in fund analysis, finance and operations

**ANNIKA KARL, OFFICE MANAGER**
German, academic researcher and historian, previous roles at the European Parliament and in Brussels: On-site support to Secretary-General

The team was also supported in 2015 by external consultants: Alejandro Gómez, Duncan Linto, Greg Ford and Christian M. Stedum (who joined the staff as a Senior Policy Analyst from January 2016), and interns Alexio David and Saida Blok.
A MASSIVE IMBALANCE OF LOBBYING

The financial sector has a big stake in financial regulation. It spends hundreds of millions of euros a year on lobbying in Brussels to protect the tens of billions of euros in profits each year. Together with its army of lawyers, lobbyists, accountants and consultants, the financial sector delivers thousands of pages of material to policymakers to influence regulatory outcomes every year. It hosts numerous events, briefings and private dinners with policymakers, and operates a seductive “revolving door” for policymakers looking for a new challenge.

But society has a bigger stake. Since 2007, millions of EU workers have lost their jobs, citizens have lost their homes and many are still struggling to make ends meet. EU workers have lost their jobs, citizens have lost their homes and many are still struggling to make ends meet. But unlike the financial sector, civil society cannot afford to spend millions ensuring that its views are heard by policymakers. They manage to do this in spite of being heavily outnumbered by lobbyists from the financial industry in a continuing era of highly complex policy challenges.

Despite this, Finance Watch is to be commended for their ability to advocate relentlessly for an EU financial sector that actually serves society. They manage to do this in spite of being heavily outnumbered by lobbyists from the financial industry in a continuing era of highly complex policy challenges.

Pieter Stemerding, managing director, Adessium Foundation (funder of Finance Watch)

A HIGH RETURN ON INVESTMENT

Finance Watch makes the most of its resources. During its short history, our association has established a strong reputation in expert circles in Brussels and beyond. This has given us a voice at the highest policy levels, and Finance Watch’s Members are being increasingly heard by policymakers.

As it takes institutions like Finance Watch to question the absence of a high degree of societal soul and consciousness in parts of our current financial system.

Professor Paul Embrechts, RiskLab, ETH Zürich

Finance Watch is a valuable partner, always providing us with helpful reports and fresh views on all the important issues of the financial world.

Othmar Karas MEP (EPP, Austria)

The experts at Finance Watch are impartial but well-informed and easily accessible to policy-makers, civil society and the general public. Despite the fact that it is relatively small and lean, it provides an essential counter-weight to the very loud and very well-funded voice of the financial sector in Brussels and Strasbourg.

Anneliese Dodds MEP (S&D, UK)

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.

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A STRONGER CIVIL SOCIETY VOICE

There is a continued need for civil society to speak up for public interest concerns in financial regulation to prevent an imbalance in the representation of interests. Finance Watch has been working to increase both the capacity of civil society to speak up and the opportunities for it to do so. Our work includes monitoring changes to the way that financial regulation is made so that civil society’s ability to represent itself is improved, opposing industry pressure for deregulation, supporting the activities of our Members and other civil society groups directly, and developing our own organisation to be as effective as possible with the support of our Members.

STANDING UP FOR REGULATION

With the EU’s economy still weak, policymakers have launched initiatives to cut red tape and unnecessary regulation, with the aim of helping growth and defusing criticisms of the EU. Finance Watch supports simple, coherent regulation but, together with many in civil society, we do not want to see a regulatory spring-clean turn into a financial sector agenda for deregulation. Such an outcome would only hurt citizens and the EU.

“There is no room for error this time; a financial crisis now would be an economic disaster and would feed political extremism at a dangerous time in the EU’s history.”

Christophe Nijdam, Secretary General of Finance Watch

A bias towards deregulation in the financial sector can increase the chances of a financial crisis with social and economic costs far higher than any short-term benefits from deregulation. There are warnings of a new financial crisis brewing but, more than eight years after the last crisis, many key financial reforms have not been implemented or even agreed.

In 2015, there were three major initiatives that could negatively impact financial regulation: Better Regulation, which updates the way all EU regulations are made; the Parliament’s stocktaking of recent financial regulation; and the Commission’s call for evidence on the EU’s regulatory framework for financial services.

BETTER REGULATION

The Commission’s Better Regulation initiative aims to cut unnecessary administrative burden out of regulations. However, we believe instead it will probably make the EU decision-making process longer and more costly, with less democratic oversight and more reliance on technical expertise.

The initiative gives more prominence to public “stakeholder” consultations, which favours the well-resourced financial industry over civil society, and more prominence to impact assessments, which creates a risk that easy-to-measure compliance costs get more visibility than hard-to-measure societal benefits.

THE BETTER REGULATION WATCHDOG NETWORK

At the start of 2015, Finance Watch and four of its Members - BEUC, Friends of the Earth Europe, OGB and Uni-Europa - co-founded the Better Regulation Watchdog Network to examine actions taken under the Better Regulation initiative and flag up possible risks to social, labour, environmental, consumer, financial regulation and public health standards. The network was formally launched in May 2015 and now has 65 members, including the steering group. The watchdog met more than 20 times in 2015.
FINANCIAL WATCH ANNUAL REPORT 2015

PART 2
A STRONGER CIVIL SOCIETY VOICE

FINANCE WATCH LAUNCHED A BLOG TO EXPLAIN SOME OF THE SUBTLE TIES OF BETTER REGULATION

These look at ideas that sound as “nice as apple pie”, such as cutting red tape and measuring costs and benefits but contain toxic ingredients, such as deregulation or one-sided evidence collection.

transparent for citizens but we feared it could allow the financial industry to increase its influence on EU legislation in ways that civil society could not match in terms of resources.

The Better Regulation Watchdog Network therefore organised a public debate in October 2015 with MEPs and met with high-level decision-makers in the Commission, Council and Parliament throughout the year. The Watchdog sent a letter to Parliament negotiators in June 2015, and most of its demands were reflected in the Parliament’s negotiating position and in the final text of the Inter-Institutional Agreement on Better Law-Making, formally adopted in March 2016.

These include that impact assessments should include the assessment of economic, environmental and social impacts; and that the European Parliament will have better access to information about meetings and documents during the Level 2 process, when regulation is being prepared for implementation.

We also wrote an article for the Frankfurter Rundschau about how it is much easier to measure the costs of regulation to business than the benefits to society, and why this means that impact assessments based on cost-benefit analysis give an unfair advantage to corporate lobbyists.

Stocktaking and challenges of the EU financial services regulation

REPORTER: Burkhard Balle

PRESS RELEASE

Robust regulation is not an impediment to both growth and jobs.

Instead of already taking stock of regulation which has not yet been implemented, Finance Watch calls on the European Commission to:

- Complete bank structure reform to address moral hazard;
- Curb the excessive complexity of bank prudential regulations and the preferential treatment of large banks over small ones by addressing the well-known issues of the (internal) Home Bias approach and giving a more prominent role to simpler and more robust metrics such as the leverage cap;
- Address factors of systemic risks such as interconnectedness through macro-prudential regulation.

STOCKTAKEING OF FINANCIAL REGULATION

The Parliament undertook a “stocktaking” of financial regulations led by rapporteur Burkhard Balle MEP (EPP, Germany). As our contribution, Finance Watch held meetings with the rapporteur and key shadow rapporteurs, and spoke at an ECON Committee hearing in June 2015. Balle’s draft report was published in August and adopted by the ECON Committee in December 2015 with several of our points on consumer protection, financial stability, and balanced representation of interests in financial services legislation.

CALL FOR EVIDENCE ON THE EU’S REGULATORY FRAMEWORK FOR FINANCIAL SERVICES

In September 2015, the Commission issued a call for evidence on the regulatory framework for financial services, speech to European Parliament, 11 September 2007

PRESS RELEASE

We believe that a “light touch”, principle-based regulation is the best approach for the financial sector.

Charlie McCreevy, then European Commissioner for Internal Market and Services, speech to European Parliament, 11 September 2007

Welcome to the first podcast of Finance Watch, in which Alina Fares and Frédéric Hache discuss the “TTIP”.

A REGULATORY LEARNING CURVE

Behind our interventions on these initiatives is a simple question - can the EU simplify its new rules and improve its rule-making process without returning to the light-touch regulation that ended in a financial crisis and recession?

Dr Daniela Gabor, Associate Professor, University of the West of England

We think the global regulatory system in total failed. There was a belief that light-touch regulation would make the City big; and that the City was a source of employment and tax revenue.

Lord Adair Turner, then chairman of the FSA, 14 December 2011

ncial services”, which closed in January 2016. The call asked for empirical evidence on how new rules are affecting the economy, on regulatory burdens, inconsistencies and unintended consequences, and fulfills a longstanding request from the financial industry lobby for a study of the cumulative impact of new regulation.

Finance Watch rallied its Members to respond, as well as submitting our own response, and issued a press release flagging our main concerns. These include that the framing of the consultation implies an unfunded trade-off between financial stability and growth, in which regulation that improves stability is presumed to be bad for growth, when in fact financial stability is pragmatically for sustainable growth in the wider economy.

TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

The EU’s negotiations with the USA for a Transatlantic Trade and Investment Partnership (TTIP) started in 2013 and the Commission aims to conclude them in 2016, despite widespread and vocal opposition from many quarters of civil society. Like Better Regulation, it could affect the way regulation is made in the future and make it easier for financial lobbies to influence the regulatory process.

Finance Watch has been monitoring the trade talks that relate to financial services, sharing intelligence and coordinating activities with other civil society groups through our Members’ Working Group on TTIP.

Our three main concerns with the planned trade agreement are that financial services do not need to be further liberalised, as the financial crisis made all too clear, that efforts to bring regulatory convergence between EU and US regulations will likely result in convergence at the weakest level; and that the controversial rights of redress for corporations, initially called “Investor State Dispute Mechanism”, are undemocratic and unnecessary and should be abandoned.

In February 2015, we joined a strategy meeting of EU and US civil society organisations where we hosted a working session on TTIP and Finance together with Corporate Europe Observatory and Finance Watch Members WEED and SIMOD. Throughout the rest of the year, Finance Watch staff intervened at various stakeholder events organised by the Commission and the European Economic and Social Council, and we also met Commission officials to express our concerns over TTIP, together with Members. We intervened during several events organised by civil society groups, sharing our expertise on the financial services sector.

With TTIP attracting considerable public attention, we published a cartoon, recorded a podcast, and produced a webinar on financial services and regulatory cooperation in TTIP, together with the Corporate Europe Observatory and Forum Umwelt, Entwicklung, to explain our concerns to a broader public.

Finance Watch allows us to be up to date regarding the processes and decisions taken on a European level, and brings intelligence and information on financial matters. It gathers the voices of national civil society organisations and brings them into the European debate.”

Andrea Baranes, President of the Fondazione Culturale ResponsabiliEtica (Member of Finance Watch)
BUILDING CIVIL SOCIETY CAPACITY

Finance Watch’s mission includes building the capacity of civil society to represent its views on financial regulation. We do this by convening Working Groups of our Members, joining in with the activities of civil society networks in which our Members are involved, and sharing information with civil society and the public.

WORKING GROUPS

Five working groups of Finance Watch Members met regularly in 2015, holding 25 conference calls and video calls in total. The meetings are documented and in some cases recorded, and the proceedings made available to the wider membership.

Highlights of the year’s work included:

- The Banks Working Group worked on Bank Structure Reform, bail-in and a number of consultations on bank capital and loss absorbency, following up on the European agenda as well as on initiatives of international bodies such as the Financial Stability Board and the Basel Committee.
- In September 2015, the Capital Markets Union’s (CMU) steering committee also met four times during the year.

EVENTS AND OTHER ACTIVITIES WITH MEMBERS

To help make the link between finance and major societal issues, Finance Watch engages with other civil society networks in a number of areas:

JOBS

In March 2015, we hosted a meeting for all the trade union organisations in our membership at our offices to discuss the impact of finance on jobs and to address outstanding employee viewpoints on financial regulation. As a result, Finance Watch staff later spoke about regulatory developments after the financial crisis at conferences organised by Eusa & ETUC in Brussels in May 2015, by NUFU in Oslo in June 2015, and by the CFT in Paris in September 2015.

As President of Uni Europa Finance, representing around 15 million finance employees, I value the access to high quality expert knowledge which adds more insight to the debate on the sustainability of the financial sector and the sector’s role in society.

Michael Budolfesen, President, Uni-Europa finance (Member of Finance Watch)

DEVELOPMENT

An informal network of international civil society organisations exists to discuss civil society engagement in financial regulation at G20 level, led by our Members SOMO and WEED, the US organisation New Rules for Financial Reforms and the German organisation Brot für die Welt. We participated in seven conference calls in 2015 and took part in a meeting in Ankara around the G20 finance ministers meeting in September 2015. The main topics were improving the accountability of international regulatory bodies and making sure the concerns of international civil society groups are taken account of, including minimising the impact of future financial crises and harmful capital flows in developing countries.

CLIMATE

We gathered more than 20 civil society organisations working on climate in November 2015, including several Finance Watch Members, to discuss climate and finance on the sidelines of Finance Watch’s climate and finance conference in Paris in November 2015. The gathering was an opportunity to work on a vision of a financial system that would serve the energy transition, identifying key financial actors and related capital flows funding green (renewables) vs brown (fossil) energies. The main outcome of the discussions is that we need more than a bigger “green finance niche”: climate objectives will only be reached if the financial system as a whole is transformed. This was expressed in a joint statement signed by 17 organisations, including Greenpeace and 350.org. This work will continue in 2016 with activities to share expertise and advocacy ideas.

We spoke at more than a dozen events organised by civil society representatives in France, Belgium, Germany, Italy and the UK, making the case for a stronger regulation of finance.

MEMBERS’ UPDATES

Members of Finance Watch receive a detailed weekly email update with an agenda of legislative events, summaries of policy news, updates from our working groups and other civil society news. There were 42 updates in 2015.

FINANCIAL WATCH

ANNUAL REPORT 2015

A STRONGER CIVIL SOCIETY VOICE

Frédéric Hache explains how Capital Watch

ANNUAL REPORT 2015

FINANCIAL WATCH

A STRONGER CIVIL SOCIETY VOICE

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ANNUAL REPORT 2015

FINANCIAL WATCH

A STRONGER CIVIL SOCIETY VOICE

Frédéric Hache explains how Capital Watch
BLOGS

We published nearly 30 blog articles last year on topics such as fossil fuel divestment, crowdfunding, microcredits and market liquidity, as well as our core work areas of Capital Markets Union, Bank Structure Reform and Better Regulation.

FINANCIAL WATCH

ANNUAL REPORT 2015

PART 2

A STRONGER CIVIL SOCIETY VOICE

DEVELOPING OUR OWN ORGANISATION

Finance Watch’s own development includes work to expand the membership in new countries, renew our board and staff, as well as governance and fundraising.

MEMBERSHIP DEVELOPMENT

The team held 40 meetings with potential new Member organizations and expert individuals in the targeted countries of Italy, Poland and the Netherlands, leading to five new Members so far and several applications in the pipeline.

BOARD NEWS

In September 2015, the Board announced the appointment of two external directors, Marc Rosthe, an author and financial journalist, and Professor Eric De Keuleneer, an academic and former corporate and investment banker.

CARTOONS

Finance Watch’s cartoons are produced by Frédéric Hache, head of policy analysis, who uses them to zoom in on key issues with a bit of humour.

The team also contributes to press coverage, external editorials and social media. For more details, see Communications on page 46.

The work of Finance Watch is of the highest importance for us in Italy. The rules and decisions regarding the financial system are taken almost exclusively in Brussels, and it is almost impossible for the Italian civil society to follow them in detail, not to mention trying to influence or participate to the debate. Finance Watch is essential in both these directions.”

Andrea Baranes, President of the Fondazione Culturale Responsabilita Etica (Member of Finance Watch)

STAFF NEWS

New joiners to the staff in 2015: Jessica Porcelli (public affairs trainee), Ayda Kaplan (office manager) and Rim Ben Dhaou (Senior Policy Analyst). Christian Stiefmueller, a career investment banker, worked as a consultant from September 2015 before joining the staff in January 2016 as a Senior Policy Analyst. In addition, intern Guila Perino also joined the staff in January 2016 as Membership, Outreach and Expertise coordination officer.

Head of Operations Sylvie Delassus and Senior Policy Analyst Paulina Przeworska left for other pastures, and Greg Ford has moved from Head of Communications to a consultant role as Senior Communications Advisor.

GOVERNANCE

There were two General Assemblies of the Members of Finance Watch in 2015. At the 8 April meeting, Members approved a change to the Articles of Association to include two “external personalities” as Board directors (Marc Rosthe and Eric De Keuleneer), to ratify the accounts for 2014, and to elect Robin Jarvis and Jérôme Cazes to the Committee for Transparency and Independence (CTI).

At the 18 November 2015 meeting, Members approved the work programme and budget for 2016, and elected Marie-Jeanne Pasquette to the CTI. The meeting was rounded off with an inspiring presentation from Adalsteinn Leifsson, the former Chairman of the Board of the Financial Supervisory Authority in Iceland.

FUNDRAISING

In January 2015, Benoît Lallemand, previously co-Head of Policy Analysis and acting Secretary General, took over the new function of Head of Strategic Development and Operations with one of his main missions to build a more diverse and sustainable funding base, which is now a core priority as some of the organisation’s start-up funding comes to an end.

Finance Watch is a democratic necessity: it brings alternative weight coming from civil society that counterbalances the financial lobbies and facilitates a reapropriation of the question of finance by citizens so that they can take power back into their hands.”

Juliette Decoster, Fondation Charles Léopold Mayer – FPH (Finance Watch funder)

Finance Watch is an entirely unique organization that combines all of the attributes of an elite think tank with the democratic ethos of a social movement. It is David to the finance industry’s Goliath. Finance Watch’s depth of expertise in service to the mission of making finance serve society – and not vice versa – helps to make it harder for the giant to run roughshod over the public.”

Susan Treadwell, Open Society Foundations (Finance Watch funder)

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Susan Treadwell, Open Society Foundations (Finance Watch funder)
A SAFER FINANCIAL SYSTEM

Several key pieces of financial regulation from recent years aim to improve financial stability but remain incomplete or inadequate, leaving the public at risk of a future financial crisis. These include measures on bank capital, bank bail-in and bank structure. In addition, we are concerned that the new Capital Markets Union initiative may unintentionally add to the risk of financial crises.

CAPITAL MARKETS UNION AND SECURITISATION

The Capital Markets Union (CMU) is the landmark financial reform of the new Commission. Its stated aim is to boost growth and jobs by promoting capital market financing of the economy. It was launched with 17 initiatives (since increased to 35), of which the most prominent so far are moves to promote shadow banking and securitisation, and steps to help companies raise equity capital.

The Commission launched CMU on 18 February 2015 with a Green Paper and an initial public consultation on Building a Capital Markets Union, together with two more detailed consultations on high quality securitisation and a review of the Prospectus Directive. It held a public hearing on CMU on 8 June 2015 and launched its detailed action plan on 30 September 2015, including legislative proposals on securitisation, later followed by a legislative proposal for a Prospectus Regulation.

Finance Watch’s responses expressed our scepticism about some of the ways that CMU seeks to achieve its goals, and concerns that it may backfire by weakening financial stability and consumer protection. In 2015, we built on our landmark position paper, “A missed opportunity to revive ‘boring’ finance?” to become a leading communicator and the main civil society voice on CMU and securitisation.

In July 2015, we produced a second webinar called “What is securitisation?” to explain the mechanics of the financing technique that was at the heart of the last financial crisis (and the subject of the blockbuster Hollywood movie “The Big Short”) and why it is important to have a truly strong regulatory framework that applies the lessons learned during that very costly crisis.

SPREADING THE WORD

Our messages on CMU appeared 59 times in the mainstream media and were supported on social media under the hastag #CMU4who. In the summer of 2015, we organised a press briefing on CMU for Italian journalists in Brussels and published its CMU action plan. One of its main objectives was to show the diversity of voices and debunk the oft-heard statement that “everyone is in favor of the CMU.”

Working Group discussions led to several letters being published in the financial times, including one from Finance Watch urging that CMU be used to benefit the real economy rather than the largest banks and taxpayers.

Press Release: Capital Markets Union is not a cure-all for SME jobs and growth, may generate new risks, 2 June 2015


In our May webinar, “Understanding Capital Markets Union”, we explained who will really benefit from CMU and why citizens and taxpayers should be concerned.

In July 2015, we produced a second webinar called “What is securitisation?” to explain the mechanics of the financing technique that was at the heart of the last financial crisis (and the subject of the blockbuster Hollywood movie “The Big Short”) and why it is important to have a truly strong regulatory framework that applies the lessons learned during that very costly crisis.
quality securitisation", and in the second panel the increasing importance of collateral, includ – ing the systemic benefits and negative exter - nalities of securities financing transactions and the need for minimum haircuts and limits on the re-use of collateral.

Commissioner Hill addressing the 4 February 2015 conference.

There were six speech topics during the day. In the first, our Secretary General Christophe Nijdam reminded delegates that the CMU promotes the investment banking model over traditional banking. Dr Lothar Blatt-von Raczek of the German association of savings banks advised the Commission to approach its jobs and growth focus by promoting the traditional, retail-funded banking model. As the growth of non-bank lending will increase cross-border flows of collateral, were already pre-crisis trends, there is no compelling evidence to justify changing the European model and promote capital market financing over traditional banking. As the growth of non-bank lending will lead to a more collateral-intensive financial system, it is likely to increase pro-cyclicality and interconnectedness, two major systemic risk factors. The alleged objective to promote capital market financing to help European SMEs access financing does not hold to the facts: First of all, banks have increased their capital since the crisis, making them able to lend more than before the crisis. And survey of all SMEs by the ECB show that their biggest concern today is finding access to public safety nets to shadow banking, which would increase moral hazard, or alternatively shrinking the size of - and not promoting - shadow banking.

Our position on Capital Markets Union:

The CMU is not a new idea: the growth of securities financing transactions and the revival of securitisation is not to help customers, whereas access to finance is one of the lessons of the crisis. And recent surveys of EU SMEs by the ECB show that their biggest concern today is finding access to public safety nets to shadow banking, which would increase moral hazard, or alternatively shrinking the size of - and not promoting - shadow banking.

The alleged objective to promote capital market financing to help European SMEs access financing does not hold to the facts: First of all, banks have increased their capital since the crisis, making them able to lend more than before the crisis. And survey of all SMEs by the ECB show that their biggest concern today is finding access to public safety nets to shadow banking, which would increase moral hazard, or alternatively shrinking the size of - and not promoting - shadow banking.

Our position on securitisation:

The framework should not open the door to a fu - ture relaxation of capital requirements on securitisations, arising mostly from model uncertainty, com - plexity and regulatory arbitrage, Finance Watch is – ting that banks could rely less on ex - ter nal models to estimate the riskiness of their assets.

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.

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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.
Therefore, until a major re-think regarding the role of internal models and risk-weighted capital ratios is accomplished, it is important to introduce a leverage cap as a binding Pillar 2 measure and to keep the Basel I Floor or introduce the Standardised Approach floor (provided that it will not result in a softer prudential treatment) as put forward by the Basel Committee on Banking Supervision.

12 August 2015
Frankfurter Rundschau
Banken benennen sich selbst

We made similar points in a January 2015 consultation response to the Basel Committee for Banking Supervision about corporate governance principles for banks, arguing that good governance requires banks to understand and maintain the right level of risk.

In an article in the German press, we explained how capital rules and their loopholes still do not prevent banks from operating with insufficient capital.

We have also followed the Basel Committee on Banking Supervision’s Fundamental Review of the Trading Book, which looked among other things at how much capital banks should use to fund their trading operations and to led to the BCBS’s January 2016 revised market risk framework.

BANK BAIL-IN

If capital is not high enough to absorb bank losses, another way to protect taxpayers is to "bail-in" a troubled bank’s creditors. Regulators have placed a lot of hope in the idea that losses, another way to protect taxpayers is to "bail-in" a troubled bank's creditors. Regulators have placed a lot of hope in the idea that losses, another way to protect taxpayers is to "bail-in" a troubled bank's creditors.

Large banks have lobbied very hard against this EU reform, which targets a major source of implicit funding subsidy, and have been assisted in this by some member state governments acting on behalf of "their" national champions.

In January 2015, the Parliament’s rapporteur, Gunnar Hökmark (BFP, Sweden) who opposes mandatory bank separation, proposed a list of amendments to make separation discretionary instead of automatic, leaving the text as little more than an empty shell.

After the financial crisis, many bankers and politicians questioned the wisdom of allowing investment banks and retail banks to share the same funding and corporate structures, and many called for full separation. The Commission launched a bank structure reform proposal in January 2014 to make EU banks more resilient, and less likely to need taxpayer bailouts. It was based on the famous Likkanen Report, which proposed ‘ringfencing’ the trading operations of large EU banks from their credit operations, much like the UK’s ringfencing law (which safeguards the retail operations, instead of the trading operations).

Our recommendation is to make the structural reform of banks a pre-condition to relying on bail-in as a way of protecting taxpayers and to consider, once again, whether banks, in particular large ones, need to be better capitalised for bail-in to be viable.

In a close-run vote on 26 May 2015, the ECON Committee voted to reject Hökmark’s report by 30 votes to 29, a rare piece of good news for taxpayers and citizens on this dossier.

After regrouping, MEPs started trying to reach agreement in the autumn of 2015, so far without success. Unfortunately, a text from those later talks suggests that any agreement could involve further dilutions, for example weakening key thresholds and reversing the burden of proof on banks.

In the meantime, the Council reached a political agreement on 19 June 2016 on a weakened test that would allow supervisors to require extra capital buffers at the 1% largest banks (those with more than €60bn in trading assets) but would apply structural separation only as a last resort.

At the time of writing, we are waiting for Parliament to agree a position so that it can begin negotiations with the Council. MEPs trying to limit too-big-to-fail banking are defending structural reform but, as a result of heavy lobbying by vested interests, face an almost impossible task to agree a text that will give taxpayers the protection they deserve.

Bank structure reform is essential for moves on loss absorbency and bail-in to be credible (see above), and for corporate governance to be effective.

9 January 2015
Response to Basel Committee on Banking Supervision consultation on corporate governance principles for banks

No corporate governance model can work for organisations whose complexity and opacity means that risks cannot be fully understood, or which are subject to structural incentives that run counter to corporate governance principles. Structural reform of TBTF banks should be added to the list of measures needed to improve corporate governance.

We also wrote articles for publication in Italy (Il Manifesto’s weekly supplement, “Bilanciamento!”) and Austria (Wirtschaftspolitik magazine) on the problem of too-big-to-fail.

THE CASE FOR BANK STRUCTURE REFORM

Financial markets have become dominated by a small group of very, very large banks, swollen by too-big-to-fail subsidies. These banks:

- dominate and distort free and fair markets in money and capital,
- trade mostly in financial products with other financial firms, increasing the fragility of the financial system,
- are so large that even a modest loss would cause devastating damage to the economy – bailed-in the pensions and insurance premiums of normal people will be lost, bailed-out they will pay through taxes and austerity,
- are so complex that it is doubtful a bank failure could be resolved before wide-spread panic took hold,
- are more likely to experience difficulties at the same time and thus contribute more to systemic risk.

Structural reform of these banks would boost competition from smaller, more risk-focused banks. It would help bigger banks to focus more on the real economy instead of on trading and derivatives. It would level the playing field for Capital Markets Union by removing unfair too-big-to-fail subsidies and encouraging a capital market of many, reasonably sized and diverse institutions that are less exposed to systemic risk. It would make troubled megabanks easier to resolve and reduce taxpayer-funded bail-outs in a future crisis.
The financial system is well-known for sometimes focusing on speculation at the expense of investing, and for ignoring its effects on the outside world, or externalities. In some cases where this happens regulators are already addressing the problem, such as with the funding of SMEs or the curbing of excessive speculation in commodity derivatives, providing the regulations pass without being watered down. In other cases, policymaking is at an earlier stage and the task is to raise awareness.

BANK LENDING TO SMES

Bank lending to the real economy and to small and medium sized enterprises (SMEs) in particular has been weak since the financial crisis, as banks struggle with a legacy of bad loans and low capital. In July 2015, the Commission opened a consultation on the impact of new bank capital regulations on bank lending to the economy, as part of a scheduled review to check for unintended consequences of the new rules. Among other things, the consultation asked about the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories, and the so-called ‘SME supporting factor’, which reduces the amount of capital required for SME loans relative to other loan categories.

We encouraged our Members and other civil society organisations to respond to the consultation, to make sure that legitimate concerns about credit provision to the real economy would not be used to undermine bank capital rules. Among our key points was that increased capital requirements have increased the overall capacity of banks to lend.

The main lesson from the financial crisis is that only well capitalised banks are able to provide lending on a sustainable basis. BIS Papers No 75, December 2012, Long-term finance: can emerging capital markets help?

PUBLIC INTEREST AND BANKING

We also commented on liquidity rules that encourage short-term over stable long-term lending, the need to reduce banks’ reliance on unstable and procyclical wholesale funding, and to promote local relationship banking.

FOOD SPECULATION

Over the past 20 years banks have expanded their activities beyond their basic functions (savings, credits and payments) to other activities, notably in capital markets. This has dramatically altered the way that the public interest is represented in the banking sector and led to very different outcomes than in previous years. To find out what has changed in public interest representation in banking and why, and to build-up propositions to improve the situation, Finance Watch is conducting a two-year research project, with oversight from an external advisory committee and financial support from the Hans Böckler Stiftung.

The project, now half way through, builds on inputs from around 40 civil society representatives and academics gathered in a series of four workshops in Brussels, London, Berlin and Paris. It aims to create a framework for understanding public interest outcomes in European banking and a positive vision of a banking system that represents the public interest, from which policy recommendations can be made.

In 2015, after being lobbied by the industry, the European Securities and Markets Association (ESMA) published a very weak proposal for the technical standards needed to implement the new position limits, as part of its Level 2 work on MiFID II (Review of the Markets in Financial Instruments Directive). ESMA’s proposal would have allowed individual positions of up to 40% of open interest, which is too high to protect markets from excessive volatility.

A Working Group of Finance Watch members met five times during the year to discuss this and other MiFID II issues. Working together with DefAm, SIMD, WEED and other NGOs, Finance Watch organised more than two dozen meetings with MEPs, Commission officials and Cabinet staff including the chair of ESMA, Steven Maijoor, and Commissioner Lord Jonathan Hill to apply pressure for ESMA’s proposal to be tightened.

We worked with MEPs to make sure that any unambitious position limits would face a rejection from Parliament, putting pressure on the Commission to change the ESMA proposals.
blic hearing in Paris on 19 February 2015 and responded to ESMA’s consultation in March 2015, calling for position limits to be set significantly lower than the level proposed, as well as writing several briefings for policy-makers on the impact of ongoing changes to Level II drafting.

As a result of this and other civil society pressure, the Commission announced in March 2016 that it would not present the draft technical standards on commodity derivatives to the European Parliament and would instead send them back to ESMA to be revised. Once all RTS have been adopted, the rules will start to apply as of 3 January 2018, one year later than previously planned.

FINANCE WATCH’S VIEW

Derivatives trading helps businesses to manage their economic exposures. But the tail should not wag the dog: if the prices of essential materials are driven by momentum trading and excessive speculation instead of basic supply and demand, these were also subject to technical rulemaking at Level 2.

Finance Watch contributed to this debate at the same 19 February 2015 public hearing in Paris (see “Food speculation”), and in our consultation response, calling for various anti-abuse measures to be strengthened and for measures to encourage liquidity provision in less liquid markets

We also teamed up with our US sister organisation, Better Markets, in a press release to comment on a US proposal on HFT from the Securities and Exchange Commission.

FINANCIAL WATCH

We used the event to present the first draft of the Citizens’ Dashboard of Finance to the public, and to hold a workshop with the coalition of civil society representatives created for the occasion in the afternoon before the conference.

Speakers

- Frank Bourgeois, Director General, ESEP Europe
- Benoît Lallemand, Head of Strategic Development, Finance Watch
- Christophe Alévêque, stand-up comedian
- Geneviève Azam, lecturer and researcher in economics, Université de Toulouse II
- Jean-Michel Naulot, former banker and member of the Autorité des Marchés Financiers (AMF)
- Jean-Louis Bancel, President and Director General, Groupe Credit Coopératif
- Alexandre Naulot, financial policy affairs, Oxford France
- Wojtek Kaliński, co-director, Institut Veblen (moderator)
- Stéphane Duprat, Executive Director, 2” Investing Initiative
- Lin Fuller, Head of Ecoloy and Sustainable Development, Heinrich Böll Stiftung
- Claude Simon, Emeritus Professor, ESCP Europe (moderator)
- Aline Fares, Head of Membership, Outreach and Expertise coordination, Finance Watch
- Pierre Ducret, Climate and COP21 advisor, Groupe Caisses des Dépôts
- Christophe Nijdam, Secretary General, Finance Watch

CROWDFUNDING

As crowdfunding takes off, retail investors face a host of new risks and opportunities. This guest blog identified some of the dangers of crowdfunding and ways in which retail investors could be better protected in the future.

MICROCREDITS

Microcredits are not just for developing countries, their growing role in the EU’s economy triggered the first “European Microfinance Day” in October 2015. This blog looked at the vibrant but often overlooked EU microcredit sector to see what lessons it might hold for other types of small business lending.

LIQUIDITY

Financial industry lobbyists seized on concerns about market liquidity in 2015 to push back on necessary reforms, including bank structure and capital. If policymakers respond to this “liquidity lobbying” by rolling back new rules as requested, they risk leaving the financial system unprotected. This blog, which was also published in French and German newspapers, looks at the so-called “fetish for liquidity” and explains why policymakers should stand their ground.

25 August 2015
Diverting from fossil fuels – Broadening the perspective on the newest ethical challenge to the financial industry

8 December 2015
“Take care of the crowd!” – Legal protection of retail investors in crowdfunding is long overdue, says Finance Watch Member and Treasurer Rainer Lang

26 June 2015
Liquidity – a double-edged sword

25 August 2015
Diverting from fossil fuels – Broadening the perspective on the newest ethical challenge to the financial industry
**FINANCE THAT CITIZENS CAN TRUST**

Finance Watch’s advocacy on retail financial services aims to help end-users make better choices and get fair returns on their investments.

**COMPLEXITY LABELS AND PRIIPS**

Since the Packaged Retail Investment and Insurance Products Regulation (PRIIPs) was published in 2015, our work has focused on how to protect retail investors from the sale of unsuitable financial products. A key element of the idea of a “complexity label” is to warn retail investors if they are about to buy something that is not simple and may be difficult to understand. The idea is similar to the health warnings that appear on the packaging of some food products.

With an increasing number of “innovative” investment products on the market, Finance Watch has been working on this idea for several years and in 2013 successfully convinced MEPs to include the complexity label in the PRIIPs legislation. The label was included in the Level 1 text agreed in April 2014 (largely a result of Finance Watch’s work, according to an academic study).1


**GREEN PAPER ON RETAIL FINANCIAL SERVICES**

In December 2015, the Commission published a Green Paper on retail financial services aimed at making it easier for citizens to buy financial services from firms in other EU member states. The follow-up to this paper is likely to dominate the EU’s work in retail financial services for the immediate future. The paper addresses mainly cross-border barriers, which mostly affect fewer than 3% of EU citizens who live in another member state than that of their nationality, or where they work. A more ambitious legislative agenda is needed to strengthen consumer protection, a view that Finance Watch shares with the three European Supervisory Authorities (ESMA, EIOPA and EBA), who wrote to the Commission in January 2016 asking the Commission to use its green paper to help protect consumers.

The paper also addresses the growth of digital financial services for retail customers. For example, in the future customers will be able to contract a mortgage or invest their savings from their mobile phone and be able to access such services from providers located anywhere in the EU. From Cyprus to Slovenia to Belgium.

Finance Watch responded to the green paper’s publication on 10 December 2015 with a press release asking the Commission to take parallel initiatives to ensure that increased cross-border retail flows lead to less concentration in the provision of financial services, a more level playing field and less risk transfers to consumers.

The month before the green paper came out, we hosted a panel discussion at which EPP and SEDE representatives agreed on the need to improve cross-product consumer protection.

**PRESS RELEASE**

> **Finance Watch calls on Commission to ensure industry-based ESMA advice on inducements in MiFID II**

6 February 2015

**Panel Discussion with MRPs at Finance Watch conference on 7 November 2015**

We are now working with Members via a dedicated Working Group to coordinate civil society responses, and have nearly tripled our direct lobby activity on 90% and after five years of financial reform and thousands of pages of legislation, we have not managed to comprehensively integrate the lessons from the crisis, whereas the political momentum for financial reform is closing and we are going back almost to the start of financial services.

**FINANCE WATCH’S VIEW**

We question the rather optimistic assessment that this development will create growth and jobs, more competition and better products for consumers. While we acknowledge the potential benefits such as reducing administrative burden and lowering costs for consumers, we find it important to ensure that the growth of the “Amazon” or “Uber” of financial services does not lead to increased concentration, tax avoidance and more opacity.

**CONFERENCE – “CONFIDENCE, ETHICS, AND INCENTIVES IN THE FINANCIAL SECTOR”**

Brussels, 17 November 2015, Hotel Léopold

With the reputation of banking still low after the crisis, several bank-led initiatives have sought to improve banking culture. But reports of fraud and misconduct keep on coming. Banks’ cultural problems are clearly deeper than just “a few rotten apples”. Finance Watch’s conference on confidence, ethics and incentives sought to look at whether the barrel itself might be rotten and what can be done if it is.

A panel of MEPs discussed how better consumer protection would help to restore consumers’ confidence in the financial sector, and a panel of experts discussed the interaction of incentives and ethics in the behaviour of financial workers.

Finance Watch’s Christophe Nijdam and Frédéric Hache gave speeches calling for bank structures and incentives and to be aligned better with the public interest, as one cannot regulate people’s behaviour and incentives to be aligned better with the public interest, as one cannot regulate people’s behaviour. finance Watch’s Christophe Nijdam and Frédéric Hache gave speeches calling for bank structures and incentives and to be aligned better with the public interest, as one cannot regulate people’s behaviour.

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**What explains why, eight years after the most severe crisis for 80 years and after five years of financial reform and thousands of pages of legislation, we have not managed to comprehensively integrate the lessons from the crisis, whereas the political momentum for financial reform is closing and we are going back almost to the start of financial services?**

Frédéric Hache

Robert Jenkins, a former member of the Bank of England’s Financial Policy Committee, gave a com-
The prototype of the Dashboard, now online, was developed by more than 30 civil society organisations, led by Finance Watch, over the course of two years.

The "Citizens' Dashboard of Finance" is a unique civil society project that aims to answer the question: is finance serving society? Its purpose is to fill a gap in the official response to the financial and economic crises, by defining what society itself wants from the financial sector, measuring how well those needs are being met, and proposing ways to improve them.

The Dashboard aims to define what society needs from the financial system, measure how well the financial system is meeting those needs, and promote ways to change the financial system so it can better serve society.

The "Citizens' Dashboard of Finance" is a unique civil society project that aims to answer the question: is finance serving society? Its purpose is to define what society itself wants from the financial sector, measure how well those needs are being met, and propose ways to improve them.

The Dashboard data have already raised fundamental questions that go beyond the objectives of the ‘official’ post-crisis financial reform agenda:

- Is renewable energy getting more or less funding that it needs?
- How effective is the banking sector in funding growth and jobs?
- How does finance compare with other sectors on gender equality?
- And many others.

By using empirical data to pose questions about how the financial system is affecting society – making it more or less sustainable, more or less fair, more or less productive, more or less democratic – the Dashboard will provide a starting point for new policy directions in financial reform.

"Society faces profound challenges, of which the energy transition is only one. Finance can be a powerful tool for meeting these challenges, providing the model is shifted from a current focus on short-term, speculative profits to a mission to deliver long-term sustainable benefits across society."

Christophe Nijdam, Secretary General of Finance Watch

The Dashboard aims to measure how well the financial system is meeting those needs, and promote ways to change the financial system so it can better serve society.

At the project's heart is a "dashboard" of several dozen indicators that measure the real impacts of finance on society but which are – at the moment – rarely found in the impact assessments that accompany proposals for new financial regulation. These include the sector's effectiveness in allocating capital to productive activity, its stability, its political influence, its contributions to tackling climate change, and its effect on social inclusion and equality, among other things.

The Dashboard is a treasure trove of data on how the financial sector affects society.

Examples of indicators include the average holding periods for securities, lobbying expenditure, funding for renewable energy, access to basic bank accounts, and pay ratios. The data is based on official sources wherever available.

"1,700 Lobbyists in Brussels. There are 1,700 financial industry lobbyists working in Brussels alone."

Christophe Nijdam, Secretary General of Finance Watch

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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. Progress towards these goals has slowed over the past year as interest in financial reform has declined in relation to other societal priorities. We thus need the increased financial support of all our friends in this transition phase.

Finance Watch received new funding from two EU-funded Horizon 2020 programmes, DOLFINS and ENLIGHTEN, from the Open Society Initiative for Europe (which also funded a Finance Watch campaign in 2014) and the Open Society Foundations New Executives Fund (which is directly linked to the appointment of our new Secretary General), and from the Hans Böckler Stiftung. The latter’s contribution represents the first part of a two-year research project into the representation of public interest in banking.

Extensive contacts are underway with new institutional funders, led by Benoît Lallemand, previously co-Head of Policy Analysis and Acting Secretary General, who took over the new function of Head of Strategic Development and Operations in early 2015. Our current fundraising efforts aim to diversify funding sources in line with the goals above.

Finance Watch’s largest source of funding, the EU grant, represented 56.6% of resources in 2015 (up from 54.1% in 2014). Including the EU-funded DOLFINS and ENLIGHTEN programmes, the total funding that Finance Watch received from the EU was €899,397 in 2015, down 10% (-€105,263) from the previous year (€1,004,660).

Funding from donors and foundations (including DOLFINS and ENLIGHTEN) and 3rd party-funded research projects was 29.5% of resources in 2015, or €660,818 (down by €37,099 from 42.3% of resources, or €776,907, in 2014). Importantly, as mentioned above, the EU grant comes as “matched funding” – covering a maximum of 60% of our expenses in 2015: this mechanism means that if our non-EU funding dropped to zero, we would not receive anything from the EU grant.

Total expenses for 2015 were €1,829,842, or 18% below the €2,227,055 budget for 2015 approved by the General Assembly of November 2014, but 2% above 2014 spending (€1,800,276).

The main changes compared to 2014 spending were increases in staff costs (€68,572), communications (€28,910), and financial expenses (€11,345), and decreases in rent (- €43,508) and counsel and external services (- €31,292). Other operational expenses (transport and travel, equipment and supplies, information services) were collectively 18% (-€43,508) lower than in 2014.

The largest expense remained staff costs, which accounted for 70.2% of the total (including pensions and insurance), up from 67.5% 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 29% lower than the previous year (€490,163 in 2014) following the move to self-managed offices part-way through 2014. The final operating result for the year was an accounting deficit of €299,114.

The table below presents the audited financial statements from our 2015 Annual Report.

<table>
<thead>
<tr>
<th>Audited expenses 2015</th>
<th>in euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent and associated expenses</td>
<td>1,056,555</td>
</tr>
<tr>
<td>Information services</td>
<td>106,665</td>
</tr>
<tr>
<td>Counsel and external services (translation, lawyer, accountant, auditor, IT support...)</td>
<td>46,133</td>
</tr>
<tr>
<td>Communications (agencies, web and social media, print, PR, fund-raising)</td>
<td>128,999</td>
</tr>
<tr>
<td>Meetings, events, seminars</td>
<td>72,292</td>
</tr>
<tr>
<td>External expense</td>
<td>75,823</td>
</tr>
<tr>
<td>Transport and travel</td>
<td>418,044</td>
</tr>
<tr>
<td>Salaries and contributions</td>
<td>1,217,217</td>
</tr>
<tr>
<td>Other staff costs (pensions and insurance)</td>
<td>62,490</td>
</tr>
<tr>
<td>Equipment and supplies (subject to depreciation)</td>
<td>118,512</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>17,779</td>
</tr>
<tr>
<td>Other expenses</td>
<td>5,106</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>1,829,842</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audited resources 2015</th>
<th>in euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership fees</td>
<td>462,911</td>
</tr>
<tr>
<td>Donors and foundations</td>
<td>1,455,348</td>
</tr>
<tr>
<td>Adessium Foundation</td>
<td>223,881</td>
</tr>
<tr>
<td>Fondation pour le Progrès de l’Homme</td>
<td>515,456</td>
</tr>
<tr>
<td>Donations by private individuals</td>
<td>261,516</td>
</tr>
<tr>
<td>Better Markets</td>
<td>103,034</td>
</tr>
<tr>
<td>Open Society Initiative for Europe</td>
<td>42,798</td>
</tr>
<tr>
<td>Open Society Foundations New Executives Fund</td>
<td>1,016</td>
</tr>
<tr>
<td>DOLFINS</td>
<td>245,010</td>
</tr>
<tr>
<td>ENLIGHTEN</td>
<td>10,088</td>
</tr>
<tr>
<td>EU grant</td>
<td>86,125</td>
</tr>
<tr>
<td>Event co-funding and registrations</td>
<td>20,681</td>
</tr>
<tr>
<td>Groupeip</td>
<td>5,000</td>
</tr>
<tr>
<td>Heinrich Böll Stiftung</td>
<td>4,677</td>
</tr>
<tr>
<td>Conference registrations</td>
<td>7,014</td>
</tr>
<tr>
<td>3rd party-funded research projects (Hans Böckler Stiftung)</td>
<td>118,888</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td><strong>1,530,728</strong></td>
</tr>
</tbody>
</table>

Resources for 2015 were €1,530,728, down 17% (-€310,367) in 2014 (€1,841,095) as a key funding programme came to a close. The decline comes mainly from a planned but steep 55% reduction in funding from the Adessium Foundation (-€184,268), whose support was provided on a matched basis and was lower due to lower spending.
PUBLIC AFFAIRS

OVERVIEW

The public affairs team provides support and advice to Finance Watch Members and in 2015 worked directly on the topics listed alongside. The team worked extensively with Commission officials, with MEPs in the ECON Committee and ESAs (especially ESMA) and member state officials.

Following the relatively low number of meetings due to the legislative break in the election year 2014, our engagement with MEPs, Member States and the Commission returned to the usual level in 2015. In line with our strategy for 2015, we increased our engagement with MEPs, Member States and Commission officials, with MEPs in the ECON Committee and ESAs (especially ESMA) and member state officials.

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In addition to the meetings above, we scheduled a further 35 meetings to introduce the new Secretary-General to policymakers and to meet with potential new members.

EUROPEAN UNION POLICY TOPICS

- Capital Markets Union (see Membership)
- Securities (call for evidence on the EU’s regulatory framework for financial services)
- Stocktaking of financial regulation
- Bank Structure Reform
- Bank bail-in
- Bank capital
- MIFID II Level 2
- PRIIPs Level 2
- Green paper on retail financial services
- Better Regulation
- TTIP
- Climate and finance

SPARKING AND EVENTS

In 2015, Finance Watch staff attended more than 180 external public events in 20 European cities: our staff appeared as a speaker at 32 of those events, as panelists at a further 30 events, and participated in 16 external workshops.

The team hosted seven civil society workshops (see Membership) and organised three public conferences:

- "Confidence, ethics, and incentives in the financial sector?", 17 November 2015, Brussels (see page 31)
- "Finance and Climate: How to shift the model?" 5 November 2015, Paris (see page 31)
- "The long term financing agenda – the way to sustainable growth?" 4 February 2015, Brussels (see page 25)

HIGHLIGHTS OF 2015

BETTER REGULATION

Inclusion in the final text of the Inter-Institutional Agreement on Better Law-Making of the concerns of the Better Regulation Watchdog on impact assessments and the transparency of the Level 2 process, among other things (see page 17).

MIFID II LEVEL 2

Increased political pressure to tighten rules on position limits for commodity derivatives led to draft rules being sent back to ESMA for revision (see page 31).

BANK STRUCTURE REFORM

The rejection in May 2015 of a report that would have significantly reduced the ambition of the reform (see page 28).

FINANCIAL SERVICES

Finance Watch called for improved cross-product consumer protection, echoing similar calls by MEPs and ESAs (see page 34).

STOCKTAKING AND CHALLENGES OF EU FINANCIAL SERVICES REGULATION

Finance Watch used this Parliament report and hearing to reject the idea of a trade-off between regulation and growth and jobs, a message we repeated in our response to the Commission’s call for evidence on EU financial services regulation (see page 19).

Finance Watch is an active contributor to ESMA’s work and has always been a strong voice on behalf of civil society providing valuable independent feedback and input on our policy work.

Steven Maijoor, chair of European Securities and Markets Authority (ESMA)
POLICY ANALYSIS

The policy analysis team produced 19 technical interventions in 2015 (compared with 17 in 2014), including 12 consultations (six in 2014), four reports and policy briefs (five in 2014), one hearing in parliament (two in 2014), one statement at a Commission event, and one open letter (three in 2014). The team also produced eight cartoons.

TECHNICAL INTERVENTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 December 2015</td>
<td>Consultation response to EBA consultation on framework for simple, transparent and standardised securitisation</td>
</tr>
<tr>
<td>15 October 2015</td>
<td>Letter to the Financial Times on bank business models and the EU’s prosperity</td>
</tr>
<tr>
<td>7 October 2015</td>
<td>Consultation response to DG FISMA on the possible impact of the CRR and CRD IV on bank financing of the economy</td>
</tr>
<tr>
<td>13 May 2015</td>
<td>Consultation response to Commission consultation on Capital Markets Union and STS Securitisation Q&amp;As</td>
</tr>
<tr>
<td>4 May 2015</td>
<td>Consultation response to EBA consultation - The Future of the IRB Approach</td>
</tr>
<tr>
<td>23 March 2015</td>
<td>Report “Capital Markets Union in 5 questions”</td>
</tr>
<tr>
<td>16 March 2015</td>
<td>Policy Brief “Separating universal banks from too-big-to-fail banks (TBTF)”</td>
</tr>
<tr>
<td>16 March 2015</td>
<td>Report “Separating fact and fiction” - debunking myths about bank structural reform</td>
</tr>
<tr>
<td>2 March 2015</td>
<td>Consultation response to ESMA consultation on MIFID II/MIFIR Technical Standards</td>
</tr>
<tr>
<td>27 February 2015</td>
<td>Consultation response to EBA consultation on criteria for determining the minimum requirement for own funds and eligible liabilities (MREL)</td>
</tr>
<tr>
<td>17 February 2015</td>
<td>Consultation response to first ESA discussion paper on PRPs Level 2</td>
</tr>
<tr>
<td>13 February 2015</td>
<td>Consultation response to BCBS/IOSCO consultation on simple, transparent and comparable securitisations</td>
</tr>
<tr>
<td>3 February 2015</td>
<td>Consultation response to FSB consultation on Adequacy of Loss-Absorbing Capacity of Global Systemically Important Banks in resolution (TLAC)</td>
</tr>
<tr>
<td>14 January 2015</td>
<td>Consultation response to EBA consultation on simple, standard and transparent securitisations</td>
</tr>
<tr>
<td>9 January 2015</td>
<td>Consultation response to BCBS consultation on corporate governance principles in banks</td>
</tr>
</tbody>
</table>

HIGHLIGHTS OF 2015

Establishing Finance Watch as the leading public interest voice on Capital Markets Union and the revival of securitisation, including by hosting a high level conference in February 2015, responding to public consultations, speaking at high level events, publishing non-technical briefings, and updating our policy arguments, for example on synthetic securitisation and ABCPs (see page 24)

Supporting the public affairs work on bank structure reform by publishing “debunk” policy briefs (see page 29)

Continued research on the impact of MiFID II Level 2 implementation drafts on position limits (see page 31)

Advocating higher standards of bank prudential regulation linked to CRD IV/CRR and BRRD by responding to public consultations (see page 27)

Engaging in a new political debate about the impact of prudential regulation on growth and competitiveness, with a statement at a Parliament hearing and responding to public consultations (see page 18)

“Finance Watch is an important voice on the objectives to strive for sustainable financial markets and a banking system that is robust, efficient and responsible in its risk taking. I welcome the contributions by Finance Watch to Commission initiatives and its efforts to foster dialogue on these crucial subjects.”

Jeroen Hooijer, Head of Unit on Company Law, DG Justice, European Commission

“Finance Watch combines the necessary technical skills and broad industry experience with ethical principles to which all actors involved should adhere to.”

Paul Embrechts, RiskLab, ETH Zürich

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COMMUNICATIONS

The year’s focus was on supporting other teams and on producing materials for the general public.

MATERIALS FOR THE GENERAL PUBLIC

- 3 WEBINARS on securitisation, Capital Markets Union, and Level 2 rulemaking
- 27 BLOG ARTICLES on topics including fossil fuel divestment, crowdfunding, microlending, liquidity, bank structure reform, Better Regulation and Capital Markets Union
- 17 EXTERNAL ARTICLES (OP-EDS) AND OPEN LETTERS published in Frankfurter Rundschau, Le Nouvel Economiste and Financial Times, among others
- 1 ONLINE EDUCATIONAL UNIT, “Understanding Finance #3: What kind of financial markets do we need?”
- 8 CARTOONS
- 10 FRIENDS’ NEWSLETTERS, available in English, French and German
- 24,600 YOUTUBE VIEWS

SOCIAL MEDIA AT THE END OF 2015

- 9,660 FRIENDS (up 14%)
- 6,550 TWITTERS FOLLOWERS (up 24% on the previous year)
- 18,149 FACEBOOK FOLLOWERS (up 22%)

PRESS COVERAGE IN 2015

- 146 INTERACTIONS, with journalists from 115 media outlets, including Canal+, 3sat, Financial Times, Politico, France Culture, AFP, Le Monde, Les Echos, and Friends-Tendances and others
- 226 ARTICLES AND BROADCASTS in the European media, including 165 unique items and 41 duplicates
- 13 PRESS RELEASES achieving around 7,000 views each
- 1 BREAKFAST BRIEFING, with Italian correspondents in Brussels in early June 2015

PRESS COVERAGE IN 2015 BY TOPIC (% OF TOTAL)

- 32% - CMU and securitisation
- 20% - Bank structure reform
- 20% - Finance Watch & Lobbying
- 9% - Financial markets (MiFID, liquidity)
- 19% - Others
MEMBERSHIP, OUTREACH
AND EXPERTISE COORDINATION

Finance Watch expanded its membership in Italy, Poland and The Netherlands, countries targeted for their weight in the EU and the nature of their financial sectors, as well as France and Germany. Existing Members were able to share expertise and coordinate advocacy actions via the five Working Groups organised by the secretariat. The team contributed to a variety of civil society initiatives that required financial regulation expertise.

MEMBERSHIP (AT 31 MARCH 2016)
75 Members, including 48 civil society organisations and 27 expert individuals
40 meetings with potential new Members during 2015
8 new Members in target countries Italy (FABI, First Cisl, Fisac CGIL and MDC), Poland (Maria Aluchna, Marta Bätz and Krzysztof Grabowski) and the Netherlands (Consumentenbond)
4 other new Members in France, Germany and Greece (Collectif Roosevelt, CJD, SUWANDO, Emmanouil Tzouvelekas)

OUTREACH
More than 12 speaking engagements at events organised by our Members and other civil society partners on financial reform, regulation, climate, lobbying and housing
4 workshops hosted as part of the “Representation of Public Interest in Banking” project in Brussels and London in June 2015, in Berlin in December 2015 and in Paris in January 2016
1 workshop hosted for environmental organisations on Climate and Finance in Paris in November 2015
Around two dozen meetings of the Better Regulation Watchdog
Speaking at 7 stakeholder and civil society events on TTIP
7 conference calls and a meeting in Ankara (Turkey) on the international regulation of finance alongside the G20 finance ministers’ meeting
5 meetings of the Transforming Finance platform in the UK

"Finance Watch’s expertise in financial market reforms that serve the public interest, effective advocacy and targeted networking is excellent, unique and badly needed. Finance Watch must grow!" Suleika Reiners, Policy Officer, World Future Council (Member of Finance Watch)

EXPERTISE COORDINATION
42 Members update emails
25 conference and video calls for all the Working Groups
5 Working Groups for Members: Capital Markets Union, Banks, TTIP, MiFID, and the Citizens’ Dashboard of Finance
1 workshop hosted for trade union Members of Finance Watch in Brussels in March
1 joint statement signed by 30 Members on Capital Markets Union

PRIORITY FOR 2016
Finance Watch’s Members approved the 2016 work programme at the 18 November 2015 General Assembly. This is the final year in Finance Watch’s strategic plan for 2013–2016. A new strategic plan for 2017-2019 is being developed in the course of 2016.

FINANCE WATCH IS PRIORITISING THE FOLLOWING LEGISLATIVE AND POLICY AREAS IN 2016:
› Securitisation and capital rules
› Other proposals within the Capital Markets Union workstream (crowdfunding, Prospectus Regulation)
› Bank structure reform
› Leverage ratio and liquidity coverage ratio
› Trading Book Review
› Retail financial services
› Better Regulation
› MiFID II implementation
› Financial services in free trade agreements
› Pensions
› Climate finance

WE WILL ALSO WORK ON:
› The Citizens’ Dashboard of Finance
› Building policy proposals to improve the representation of public interest in banking
› Developing active networks of Finance Watch members at national level
› Expanding the membership, especially in Italy, Poland and The Netherlands
› Improving the accessibility of finance issues to the general public
› Fundraising
› Developing and approving a new strategic plan for 2017-2019
GLOSSARY

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

BAIL-IN
Resolution tool that allows a troubled bank’s capital and unsecured debt to be written down or converted into equity

BANK STRUCTURE REFORM
Legislative proposal to separate investment (banking) activities from core banking activities to reduce risk for taxpayers in the future. See Ringfencing

BASE III
International accord setting minimum regulatory standards, focusing on bank capital

BCBS
Basel Committee on Banking Supervision, forum for bank supervisors hosted by the Bank for International Settlements in Basel, Switzerland. Responsible for the Basel III accord on bank capital adequacy

CAPITAL MARKETS UNION (CMU)
Landmark financial reform of the new Commission aiming to boost growth and jobs by promoting capital markets financing of the economy, with various initiatives including measures to promote shadow banking and securitisation, and to help companies raise equity capital

COLLATERAL
Asset pledged as security for a loan or financial exposure. See also Wholesale funding

COMPENDY DERIVATIVES
Financial instruments such as options and futures whose value is determined by the price of an underlying commodity, such as wheat or copper. Used for speculation, or by producers to manage price risk

CRD IV
Legislative package including Capital Requirements Directive IV and Capital Requirements Regulation that implements Basel III in the EU

ECOUN COMMITTEE
The European Parliament’s Committee on Economic and Monetary Affairs, responsible among other things for scrutinising financial regulation

EPP
European People’s Party, political group in the European parliament

EUROPEAN BANKING AUTHORITY (EBA)
EU supervisory authority that ensures consistent prudential regulation and supervision of EU banks

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)
EU supervisory authority that promotes stable and orderly financial markets and protection of investors

EUROPEAN SUPERVISORY AUTHORITIES (ESAs)
Collectively, the European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA)

GREEN PAPER
Document published by the European Commission to stimulate discussion and consultation, that may lead to legislative initiatives

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

IMPULSE FUNDING SURVEY
Funding advantage obtained by banks that can borrow at cheaper rates and take bigger risks in the expectation that they will be bailed out by taxpayers. See TBTF

INTERCONNECTEDNESS
The system of linkages between financial institutions that can spread distress through the financial system, for example through inter-bank loans or exposures to similar assets

IRB (INTERNAL RATING BASED) APPROACH
Method of calculating how much loss-absorbing capital a bank should post against a given exposure, by using a bank’s internal models. Generally requires less capital than the Standardised Approach

IOSCO
International Organization of Securities Commissions, association representing regulators of the world’s securities and futures markets

INVESTOR STATE DISPUTE SETTLEMENT
Original name for mechanisms proposed in TTIP to allow companies to bring lawsuits against sovereign states in certain circumstances. Since renamed Investment Court System

LEVEL 1
Framework legislation (EU Regulations and Directives) proposed by the European Commission, adopted by the European Parliament and Council

LEVEL 2
Detailed implementing measures including technical standards defined by the European Supervisory Authorities in order to implement EU Regulations and Directives

LEVERAGE CAP
Limit on the proportion of bank’s debt funding compared to own capital funding. e.g. a minimum requirement of 5% equity to total assets would cap bank leverage at 20x

MACRO-PRUDENTIAL REGULATION
Tools to mitigate risks in the financial system as a whole as opposed to rules to make individual financial institutions safer (micro-prudential regulation)

MORAL HAZARD
Activity where the rewards go to one person but the risks are borne by another, as when taxpayer money is used to bail out banks. See Too-big-to-fail and Implicit funding

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MRR)
EU regulatory standard for banks to define a minimum required amount of own funds and certain debt obligations, which qualify for bail-in

PRIVATE INCENTIVES
Arrangements between financial firms to share or exchange risks, such as through insurance or investment exposures. See also Public safety nets

PRO-CYCLICAL
Tends to describe economic or financial movements in the same direction that reinforce each other, such as bank’s willingness to lend more in good economic times and tendency of banks to lower their capital ratios in times of stress, increasing the amplitude of cycles. The opposite is counter-cyclical

PROSPECTIVE REGULATION
Review of EU rules on corporate listing requirements Part of the Capital Markets Union agenda

PUBLIC SAFETY NETS
Tools for public intervention to contain financial distress where private backstops are absent or insufficient. Includes access to unlimited central bank liquidity and direct provision of loans

REGULATORY CONVERGENCE
Process of harmonising regulations in different jurisdictions. Part of the TTIP agenda

RINGFENCING
Structural reform of banks that applies different rules to activities such as credit and trading, without legally splitting the bank. Adopted in the UK and proposed in the EU (see Bank Structure Reform)

SECURITISATION
Process of combining assets such as bank loans into a pool and re-selling them as tradable securities

SMES
Small or medium-sized enterprises, responsible for the majority of employment and job creation in the EU and the focus of much financial policymaking

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

STANDARDIZED APPROACH
Method of calculating how much loss-absorbing capital a bank should post against a given exposure, by applying a standard percentage according to the type of asset or its credit rating. See IRB

SYNTHETIC SECURITISATION
A form of securitisation where the underlying assets are not loans but derivative contracts called credit default swaps, which swap in effect financial data on the repayment of the loans

TBTF/TOO BIG TO FAIL
Terms used to describe banks and other financial firms that cannot be allowed to fail because they provide essential services such as payment and deposit-taking, or because their size, importance or interconnectedness would put the financial system at risk

TOTAL LOSS ABSORBING CAPACITY (TLAC)
A cost for banks to define a minimum required amount of own funds and certain debt obligations, which qualify for bail-in

TRADITIONAL BANKING
A model of retail or commercial banking that is funded largely by deposits and whose main activity is loans to households and non-financial corporations

TRANSITION
Optional process where securitisation in which a pool of assets is further sub-divided ("sliced and diced") before being repackaged and sold as securities. Widely used in the US subprime market before the financial crisis

TTIP
Transatlantic Trade and Investment Partnership

WHOLESALE FUNDING
Bank funding apart from deposits and capital, such as debt borrowed from other banks, central banks or the capital markets. Can be unstable in a crisis

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