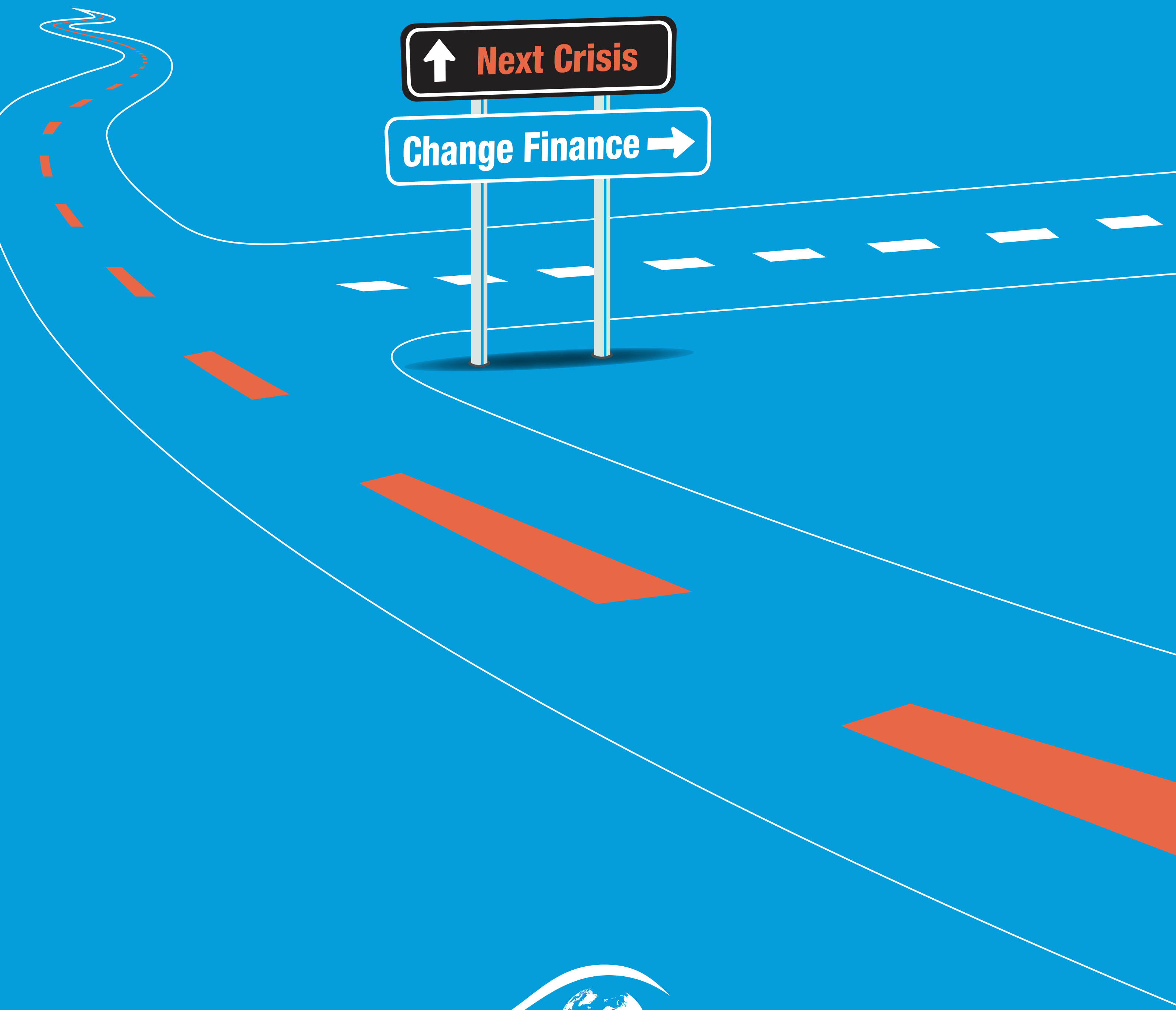
ANNUAL REPORT 2013



Finance Watch

Making finance serve society

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DOSSIERS

OPERATIONAL REPORT

This is the second annual report of Finance Watch and covers the period 1 January 2013 to 31 December 2013.

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.

Finance Watch

Making finance serve society

Finance Watch is an independent, non-profit, public interest association dedicated to making finance work for the good of society. It focuses on improving European financial regulation.

More than five years after the financial crisis, our financial system still does not serve society. The needs of the real economy are secondary to a system dominated by derivatives, too-big-to-fail banks and financial speculation. Instead of reforming itself after the financial crisis, the financial industry has lobbied hard against change, making it difficult for politicians to put the interests of society before the interests of financial firms.

We need a better balance between private and public interests so that the financial system can benefit the entire community.

Finance Watch's mission is:

- **to act as a counterweight to the private interest lobbying of the financial industry,**
- **to strengthen the voice of society in the reform of financial regulation,**
- **to advocate public interest outcomes in financial regulation.**

We are working for a financial system that allocates capital to productive use through fair and open markets in a transparent and sustainable manner, without causing detriment to society at large.

ABOUT FINANCE WATCH

LETTER FROM THE CHAIR

Monique Goyens

Monique Goyens became chair of Finance Watch in January 2014, having previously served as treasurer and vice-chair. She is the Director General of the European consumer organisation, Bureau Européen des Unions de Consommateurs (BEUC), which represents 41 independent national consumer associations in 31 European countries. In 2012, she served as a member of the European Commission's High Level Expert Group on Reforming the Structure of the EU Banking Sector led by Erkki Liikanen.

> "This year, Finance Watch plans to engage more widely with the public and to demand bolder, more fundamental reforms to the financial system from the policymakers taking office after the European elections."

My experience as a member of the Liikanen Group strengthened my conviction, shared with fellow Finance Watch Members, that financial sector lobbying must be balanced by high quality public interest advocacy if policymakers are to see and really understand all sides of the story.

That is why, as Finance Watch approaches its third birthday, I am delighted to see its influence and recognition growing.

Finance Watch is fortunate to have a skilled and diverse membership of more than 70 organisations and expert individuals that represent millions of citizens, consumers and workers from all over Europe. The lesson from 2013 is that when, as Members, we make good use of the Finance Watch network to coordinate our campaigning and lobbying we can make a difference, as we saw with food speculation.

In addition, Finance Watch can be proud to rely on a secretariat, staffed by strong experts in the financial sector, and that was able, in a very short period of time to gain respect and recognition from policy makers, not only at the EU level but in many financial capitals. As an indication, it received 130 speaking invitations and attended 194 meetings with policymakers in 2013. The financial industry no longer has the last word on matters of its own regulation.

Our association is still young and the Board and I are working hard to make sure that it develops and matures on a stable footing. But I am happy to say that Finance Watch has without doubt established itself as a counterweight to the financial lobby. There is a lot to do: it is nearly six years since the drama of the financial crisis and disappointingly little has changed at a fundamental level (if you want to find out why, visit the "Change Finance!" pages on the Finance Watch website). We cannot afford to sit back and wait for the next financial crisis.

This year, Finance Watch plans to engage more widely with the public and to demand bolder, more fundamental reforms to the financial system from the policymakers taking office after the European elections.

I invite readers to become part of the counterweight by supporting Finance Watch's work in any way they can.

Warm wishes,

Monique Goyens, Chair
On behalf of the Board of Directors

INTERVIEW WITH THE SECRETARY GENERAL

Thierry Philipponnat

Thierry Philipponnat was Secretary General of Finance Watch since the NGO was founded in June 2011 until May 2014. He was previously an executive board member of Amnesty International in France and, before that, an investment banker for more than 20 years.

What were the highlights of 2013 for Finance Watch?
Thierry Philipponnat • The year saw the fifth anniversary of the collapse of Lehman Brothers and a growing realisation that, after all this time, we haven't fixed the fundamental problems in our financial system.

A lot of Finance Watch's work in 2013 related to banks, including their structure and what happens when they get into trouble. Long-term financing and food speculation were important topics for us, and so was our "Change Finance!" campaign, which sent an important message ahead of the May 2014 European elections to continue reforming the financial system.

Have regulators done enough?
T. P. • Not by a long way. Regulators have tried to address some of the problems that the last crisis revealed but they have only changed things at the margin; for example, we still have a lot of too-big-to-fail banks and a dangerously overdeveloped derivatives market. In addition, today's financial sector still seems very inefficient: it extracts a lot of money in fees and costs while companies still cannot find the capital they need to grow.

The economy is starting to recover; why should EU citizens still care about financial reform?
T. P. • We have seen a cycle of booms and busts over the last 30 years, each one getting bigger than the last. This is a very harmful pattern: it wastes resources on the way up and inflicts terrible damage on the way down, putting millions of people out of work and destroying government finances. Financial regulation has a big influence over this cycle and could, maybe, get us out of the pattern. Now is a good time for citizens to get interested and to demand that their leaders put finance on a better track before the next financial storm breaks.

Why do we need public interest lobbying in a democracy?
T. P. • We need it for balance. A healthy democracy should be able to reconcile competing interests in a fair and efficient way. But too often we see the demands of private actors pushing the public interest aside. An organised public interest lobby can help to restore the balance. Without it, we should not be surprised if regulation favours special interest groups, such as banks, at the expense of everyone else in society.

What's the most dangerous bank lobbying myth that you hear in your work?
T. P. • There are quite a few to choose from. Perhaps the most dangerous myths are the ones used to scare politicians, for example threatening that the economy will suffer and politicians will get the blame if they try to regulate finance. In light of the damage from the last financial crisis and the evidence that good regulation makes markets work better, it is really surprising that this argument still works.

Will we ever see the end of too-big-to-fail banking?
T. P. • I am a long-term optimist about this: polls show that the general public all over Europe overwhelmingly wants to end TBTF. As soon as this is matched by political will, we can expect to see progress.

Politicians from left and right now agree that TBTF banking is a big distortion in the economy. What I see every day is that precisely the biggest and most politically connected banks use their power to avoid real reform, with considerable success. I hope we don't have to see another financial crisis before politicians find the courage to stand up to the big banks, but I am convinced that one way or another civil society's wishes will end up being respected.

How do you ensure that Finance Watch remains politically independent?
T. P. • Finance Watch is extremely careful not to take political positions. In the two and a half years since we started, we have agreed and disagreed with all the main political parties and that will not change in the future. Our work is driven only by our core values, which include advancing the public interest and pushing for productive capital allocation via fair and transparent markets. To safeguard our independence, Finance Watch is not allowed to accept funding or admit Members with political party connections. This is written into our statutes and enforced by our Committee of Transparency and Independence.

Can civil society really make a difference?
T. P. • History shows that every big advance in social justice began as a civil society movement, so we know the answer is yes. We also know that these changes can take a long time. Finance Watch and its Members have achieved some notable wins in the last year, all detailed in this report, and they show that our formula works. The challenge now is to push for the fundamental changes that our financial system still needs.

FINANCE WATCH IN BRIEF

In a healthy democracy, policy should benefit the public interest, not private interests. This applies to finance as to everything else.

Making finance serve society

We build the **capacity** of civil society to act as a **counterweight** to the financial lobby, and we **advocate** public interest outcomes in financial regulation.

The goal: a sustainable banking and financial system built around investment not betting.

Who are we?

A network of 75 civil society members, including consumer groups, trade unions, financial experts, foundations, think tanks, environmental and other NGOs (full list on page 8).

A secretariat of 13, staffed mainly by former bankers and finance sector workers (page 12).

More than 7,500 Friends of Finance Watch from the general public around Europe.

How we work

Members and secretariat staff meet in Working Groups to discuss policy issues and plan actions.

The secretariat's policy analysis team carries out research in collaboration with Members, this expertise is shared with Members and policymakers (see page 9).

Members and staff coordinate their advocacy towards EU and national policymakers.

Advocacy includes meeting policymakers, speaking at public events, and communicating to the press.

Members and secretariat staff coordinate their campaigns and communications towards the general public.

Publications are converted into non-technical materials for the general public.

Members choose what topics Finance Watch should work on when they meet in General Assemblies.

The Finance Watch secretariat in November 2013.

A CITIZEN'S COUNTERLOBBY – HOW FINANCE WATCH WAS FORMED

The regulatory activity that followed the 2008 global financial crisis led to a marked increase in private interest lobbying from the financial industry. Finance Watch was created as an independent public interest advocate in 2011 in response to a cross-party call from MEPs who feared that an imbalance in lobbying could lead to undemocratic outcomes.

2008
Global financial crisis peaks with the collapse of Lehman Brothers

2009
G20 leaders agree post-crisis financial reform agenda, EU begins work on large number of new financial regulations, financial industry lobby increases

2010
June 22 cross-party MEPs launch "Call for a finance watch"
November The call gathers 189 signatures from MEPs and national politicians
December Start of project phase to create a public interest advocacy group

2011
April 28 Finance Watch AISBL registered as an association international sans but lucritaf (international non-profit association)
June 30 Founding Members hold their first General Assembly in Brussels
September Secretariat is hired and Finance Watch becomes operational

HIGHLIGHTS OF 2013



Change Finance! campaign

On 15 September, five years to the day after the collapse of Lehman Brothers, we launched an interactive web campaign to explain to more than 20,000 visitors why so little has changed in the financial system and what we can do now as citizens to correct this.

Trilemma report

In September, we published a position paper called *"Europe's banking trilemma"*. The central idea – that separating bank activities is an essential condition for the success of Banking Union – appears to have influenced several official documents about bank structure and Banking Union.

Events

More than 400 policymakers and other stakeholders attended our conferences in April *"Funding the real economy today and tomorrow"* and November *"Five years on – What next for the financial reform agenda?"*
Delegates heard from high level speakers from the Parliament, Commission, OECD, Bank of England, FDIC, EIB, AMF, businesses, NGOs, banks, academics, financial lobbyists and journalists, among others.

Strategic plan to 2016

In April, the General Assembly approved an ambitious strategic plan setting out Finance Watch's goals until 2016. It sets out the first steps towards building a sustainable banking system and a financial system geared towards investing not betting.

Public affairs

Position limits to protect commodity markets from speculation
A sustained campaign of civil society lobbying contributed to a strong position limits regime in MiFID II. Together with Members, Finance Watch successfully convinced MEPs and Member States to restrict positions that financial players can take in commodity derivative markets. Subject to the right calibration during the Level 2 process, the new position limits regime should make commodity markets work for the real economy and could contribute to making food prices less volatile (see page 22).

Taking the bank structure consultation to the general public
Commission consultations tend to be very technical and are normally dominated by responses from the financial industry and its advocates. However, as financial regulation impacts the lives of ordinary citizens, we supported the Commission in its mission to engage more citizens in policymaking by explaining the impact of regulation to them. More than 400 members of the public responded and the Commission acknowledged that "the majority of […] replies took either the exact, or abbreviated, form of a recently-publicised Finance Watch response to the consultation" (see page 28).

A warning label to help consumers choose investment products
Consumers shopping for investment products will now be shown a 'comprehension alert' if a product they are looking at has features that make it hard to understand or have led to cases of mis-selling in the past. This should help consumers to move away from incomprehensible products structured exclusively to maximize financial sector profits even to the detriment of retail investors interest. The alert results from a two year lobby campaign by Finance Watch and was included despite fierce opposition from some member states and their financial industry, thanks to nearly unanimous support from MEPs (see page 20).

For more outcomes from our public affairs work, see the "Dossiers" section of this report.

Adessium review

At the start of 2013, one of Finance Watch's largest funders, the Adessium Foundation, commissioned an independent evaluation to critique Finance Watch's work in its first 20 months and to make strategic recommendations for its next phase of development.

The evaluation included a survey with Finance Watch Members, MEPs, Commission officials, financial sector representatives, regulators, journalists and other NGOs.

The survey fundings and the evaluation were positive about Finance Watch's work and Adessium has since agreed to extend its funding commitment.

Extracts from the evaluator's final report:

- "Recognition among a wide array of stakeholders is strong, notably in the area of building expertise."
- "FW's publications are well received, and considered useful."
- "As FW moves into the next stage of its development, it will need to ensure that its governance structure reconciles the need to have broad buy-in with the ability to move forward quickly."
- "On funding, the dependence on only a few key donors poses an unacceptable risk. Whilst independence should remain at the core of FW, the organization will need to explore new ways to fund itself."
- "FW has made impressive progress in terms of setting up a credible organization for its members, many of whom are engaged with the organization's work."
- "FW appears to have established a position in the void that existed previously: bringing another voice to the financial regulation debate. FW is well recognized and regarded by a wide array of stakeholders in this role."

MEMBERS LIST

As of 31 December 2013 (41 organisations, 34 qualified individuals)

MEMBER ORGANISATIONS LIST

AUSTRIA
- Ecosocial Forum Europe

BELGIUM
- Centrale Nationale des Employés (CNE)
- Réseau Financement Alternatif

DENMARK
- Danish Confederation of Trade Unions

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

FRANCE
- Attac France
- CCFD-Terre Solidaire
- Confédération Générale du Travail (CGT)
- Fédération CFDT des Banques et Assurances
- Fédération Européenne des Cadres des Établissements de Crédit (FECEC)
- Fédération nationale de la finance et de la banque (FFB CFE-CGC)
- FIDH
- Institut Veblen pour les réformes économiques
- Secours Catholique-réseau mondial Caritas
- UNSA Banques et Assurances

GERMANY
- Deutscher Gewerkschaftsbund (DGB)
- Foodwatch
- Heinrich Böll Stiftung
- ver.di (Vereinte Dienstleistungsgewerkschaft)
- VZBV (Verbraucherzentrale Bundesverband)
- Weltwirtschaft Ökologie & Entwicklung (WEED)

ITALY
- Fondazione Culturale Responsabilita Etica

NORWAY
- Norwegian Confederation of Trade Unions

SPAIN
- Fundacio Seira

SWEDEN
- Nordic Financial Unions (NFU)

SWITZERLAND
- Observatoire de la Finance

THE NETHERLANDS
- Stichting Onderzoek Multinationale Ondernemingen (SOMO)

UNITED KINGDOM
- ShareAction
- new economics foundation (nef)
- TUC/Unite
- World Development Movement

USA
- Revenue Watch

QUALIFIED INDIVIDUAL MEMBERS

BELGIUM
AYADI Rym
THYS Robert

FRANCE
CHAVAGNEUX Christian
COLIN Gregori
CRINETZ Michel
GEIGER Rainer
KLEINKNECHT Patrick
LAGET Philippe
LICHTEROWICZ Pierre
LIGER-BELAIR Philippe
LOUMEAU Philippe
MONNET François-Marie
PERRUT Dominique
REVALLIER Pierre
SCIALOM Laurence
SERVE Stéphanie
SIMON Claude

GERMANY
CALVI Stefan
FRIEDERICHS Karl
KÖHLER Wolfgang
LENZ Rainer
MARTIN Pablo
NITSCH Manfred
REINERS Suleika
SCHUMANN Harald
SCHWABE Hans-Joachim

SWEDEN
KELLERMANN Christian

SPAIN
SANCHEZ-PELACH Narcis

SWITZERLAND
BOHR Bärbel
CHESNEY Marc
SANTI Michel

THE NETHERLANDS
VAN DEN BURG Ieke

UNITED KINGDOM
GRIFFITH-JONES Stephany
LINES Thomas

"In less than two years, we have seen Finance Watch develop from a start-up into a professional expert organization, raising its voice constructively in a debate affecting all of us."

Rogier van der Weerd, Director of programs, Adessium Foundation

MEMBERS ACTIVITY

Finance Watch Members work together in Working Groups, which are coordinated by Finance Watch staff and meet regularly in person or by conference call. Members in these groups can coordinate their lobbying activities and share expertise. The groups have proven highly effective in helping Members to maximise their impact.

In 2013, there were three Working Groups on regulatory files and one for the "Change Finance!" campaign:

- Long term investment – to share policy analysis on the Commission's Long Term Financing and European Long term Investment Funds initiatives,
- Banks – to share policy analysis and coordinate lobbying activities on the Commission's bank regulation dossiers, including CRD IV, Bank Structure, Shadow Banking and Banking Union,
- MiFID II – to coordinate lobby and campaign actions, with a special focus on commodity derivatives,
- "Change Finance!" campaign – to develop and continue the public information campaign that Finance Watch launched on the 5th anniversary of Lehman Brothers (see page 14). After the materials were developed, the group split into national work streams to take actions at national level ahead of the 2014 European elections, and a separate working group to develop in 2014 the "Citizens' Dashboard", one of the recommendations from the campaign.

Since the autumn of 2013, each Working Group has had its own online forum and participants can share documents via a secure area on the website.

All Members receive a detailed weekly update with news from Brussels, containing key dates and deadlines, legislative and policy updates, invitations and other useful information. They can access technical information including dossier timelines and documents via the Members' area of the website, which is updated weekly. Members are invited to twice-yearly General Assemblies to network and discuss common issues, sometimes with guest speakers. The 27 November 2013 assembly included working sessions on the "Change Finance!" campaign and discussions about how to enhance the involvement of Qualified Individual Members in the work of Finance Watch.

Break-out session at the November General Assembly.

Finance Watch also partnered with Members to organise several events in 2013:

- expert meeting on Banking Union in Berlin, together with Verdi and WEED, on 21 March,
- movie screenings of "The secret bank bail-out" with filmmaker and Finance Watch Member, Harald Schumann, in the European Parliament and Brussels movie theatre 'Vendome' on 25 April, together with Reseau Financité,
- expert meeting followed by a public conference on banking in Paris, together with ATTAC and Institut Veblen on 18 June,
- conference "The International Financial System and the Global Power Shift Five Years after Lehman Brothers" in Brussels with Rosa Luxembourg, with the support of ATTAC and WEED, 13-15 November.

Membership fees are €1,000 per year for organisations and €80 per year for qualified individuals.

Members receive a detailed weekly email update.

ABOUT FINANCE WATCH

GOVERNANCE

Structure

The General Assembly of Members is Finance Watch's highest governance body. It elects the Board of Directors, comprising six organisation Members and three qualified individual Members. Directors are unpaid and serve for three years, renewable once, and since November 2013 one third of the Board seats are renewed each year.

The Secretary General is responsible for the secretariat, strategy, operations and output of Finance Watch and is appointed by the Board for a term of five years, renewable once.

The Committee of Transparency and Independence (CTI) examines membership applications and funding proposals above € 10,000 to prevent conflicts of interest, among other things. Its three to five members are proposed by the Board and approved by the General Assembly. CTI members are unpaid and serve for three years, renewable once.

The governance structure as at 31 December 2013 is shown below.

Activities

The General Assembly met twice in 2013. On 19 April, it approved Finance Watch's strategic plan for 2013-2016 and audited accounts for 2011-2012. On 27 November, it approved Finance Watch's 2014 budget and workplan and adopted modifications to the Articles of Association to introduce a system of board seat rotation. Three board seats were contested, returning CECODHAS Housing Europe and François-Marie Monnet (qualified individual Member) as new directors and re-electing Transparency International.

The Board met six times in 2013 and held a two-day retreat in September in Brussels. In April, Andreas Botsch stepped down as treasurer in favour of Monique Goyens, and Oliver Röthig replaced Monique Goyens as Vice-Chair. After the November board elections, the Board voted Monique Goyens as the new chair to replace outgoing director Ieke van den Burg, who had served as chair since Finance Watch's founding in 2011, and elected Oliver Röthig as vice-chair and Paul de Clerck as treasurer.

In 2013, the CTI reviewed 14 membership applications and cleared eight for consideration by the Board.

BOARD OF DIRECTORS

European Consumers' Organisation (BEUC), represented by **Monique Goyens** (Belgian), BEUC Director General (chair)

UNI Europa, represented by **Oliver Röthig** (German), UNI Europa Regional Secretary (vice chair)

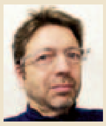
Friends of the Earth Europe (FoEE), represented by **Paul de Clerck** (Dutch), coordinator of FoEE's Economic Justice Program (treasurer)

CECODHAS Housing Europe, represented by **Kurt Eliasson** (Swedish), President of CECODHAS Housing Europe*

European Trade Union Confederation (ETUC), represented by **Andreas Botsch** (German), ETUC Special Advisor

Transparency International EU Office, represented by **Jacques Terray** (French), Vice-President of TI France and former member of TI International Board of Directors* (second term)

Wolfgang Köhler (German), freelance journalist and author, former business and financial editor of "Die Zeit" and former financial editor of "Wirtschaftswoche"

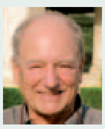


Philippe Loumeau (French), Independent consultant, former Chief Operating Officer of Montreal Exchange, former Board member of Boston Options Exchange

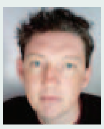
François-Marie Monnet (French), independent advisor to family wealth offices, associate of l'Observatoire de la Finance, former investment banker and journalist*

* Elected/re-elected 27 November 2013

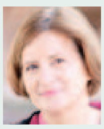
COMMITTEE OF TRANSPARENCY AND INDEPENDENCE



Michael Wiehen (German) with Transparency International since 1995, previously with the World Bank and Dresdner Bank in Frankfurt (chair).



William Dinan (Irish), University of Strathclyde expert on lobbying practice and governance. He sits on the steering committee of ALTER-EU, a European NGO Alliance for Lobbying Transparency and Ethics Regulation.



Anne-Catherine Husson-Traore (French), chief executive of Novethic, Caisse des Dépôts' research centre on Corporate Social Responsibility. Board director of Transparency International France and a member of the ethics committee of the SICAV investment fund "Liberté et solidarités". Appointed by the General Assembly on 20 November 2012.*

Michael and William were appointed by the 10 November 2011 General Assembly and Anne-Catherine by the 20 November 2012 General Assembly. None of the current CTI members are Members of Finance Watch.

* Resigned April 2014

ABOUT FINANCE WATCH

FUNDING

Finance Watch is funded by charitable foundations, public grants, membership fees and donations from the general public. It does not accept money from the financial industry or political parties.

A recent study estimated that **the financial industry employs 1,700 lobbyists and spends at least €120m a year** on lobbying the EU to influence and water down financial regulation.[1] The results can be seen in how little the financial system has fundamentally changed since the financial crisis, despite the profoundly negative impact that the crisis has had on the lives of millions of EU citizens.

Finance Watch has an annual budget of around €2m to fight back on behalf of citizens. To make this funding sustainable, we need to reduce our reliance on a few significant funders.

If you are reading this and share our goal of making finance serve society then please consider becoming a donor – large or small as every penny helps – or helping us to find new funders to support our mission.

As of 31 December 2013, Finance Watch's financial resources came from the following sources:

- the European Union,
- Adessium Foundation, a public benefit organisation based in the Netherlands that sponsors projects to further integrity, justice and a balance between people and nature,
- Hans Böckler Stiftung, a non-profit German foundation that specialises in improving people's working lives and supporting students on behalf of the Confederation of German Trade Unions,
- Fondation pour le progrès de l'Homme, a private Swiss grant-making foundation that supports activities which contribute to human progress through science and social development,
- Better Markets, a US non-profit group that advocates public interest outcomes in financial regulation,
- Confrontations Europe, a European non-profit organisation dedicated to the active participation of civil society in the construction of Europe,
- Caisse des Dépôts, French public financial institution serving the general interest,
- Friedrich-Ebert-Stiftung, German foundation working to promote political and societal education and promote democracy,
- European Investment Bank Institute, supporting European initiatives for the common good,
- donations from members of the public,
- membership fees from 75 Members,
- conference registrations.

For a breakdown of contributions, please see the financial report on page 38.

Finance Watch is grateful to all its funders, including the members of the public who supported our work in 2013. Our independence and standing as a public interest advocate are only possible because of your support.

Thank you!

> *"In the knock-down, drag out battle between the banking lobby and the public interest, non-partisan players are few. Finance-Watch is one – and it punches above its weight."*
>
> **Robert Jenkins, Adjunct Professor of Finance at London Business School, former member of the Bank of England's Financial Policy Committee**

INDEPENDENCE

All funding above €10,000 must be approved by the Committee of Transparency and Independence to ensure that it is unconditional, does not create any conflict of interest with Finance Watch's objectives, does not threaten the independence of Finance Watch's positions, and complies with money laundering standards.

[1] "*The Firepower of the Financial Lobby*", Corporate Observatory Europe, 9 April 2014. The authors used only the most conservative numbers and say the actual numbers are "likely to be far higher". Meanwhile, the spending continues to rise, for example see "*Buyside bodies hike fees amid lobbying burden*", Financial News, 17 March 2014.

SECRETARIAT

Finance Watch's staff is organised in three teams – public affairs, policy analysis and communications – supported by an expertise and campaigns coordinator who integrates the secretariat's work with Members, and an operations team.

Staff as at 31 December 2013

1 Thierry Philipponnat
(until May 2014)
Secretary General
(French)
Former investment banker (20+ years), then executive board member of Amnesty International in France; Responsible for the strategy, operations and output of the secretariat

2 Joost Mulder
Head of Public Affairs
(Dutch)
Former financial industry lobbyist; Advocacy on securities markets and retail issues

3 Katarzyna Hanula-Bobbitt
Public Affairs Officer
(Polish)
Former financial regulator; Advocacy on banking issues

4 Benoît Lallemand
Co-head of Policy Analysis
(Belgian)
Former clearing and settlement banker; Analysis on market infrastructure; EU advisor to Better Markets

5 Frédéric Hache
Co-head of Policy Analysis
(French)
Former investment banker; Analysis on financial markets, investor protection, banks

6 Paulina Przewoska
(from March 2014)
Senior Policy Analyst
(Polish)
Former financial regulator; Analysis on investment firms and banks

7 Greg Ford
Head of Communications
(British)
Former financial journalist; Policy-related communications

8 Charlotte Geiger
Communications Officer
(German)
PR and social media expert; Communications to the general public

9 Matthieu Lietaert
Community Manager
(Belgian)
Filmmaker and data visual expert; Multi-media strategist

10 Aline Fares
Expertise and Campaign Coordinator
(French)
Former commercial banker; Coordinates work with Members

11 Sylvie Delassus
Head of Operations
(French)
Operations and fundraising expert; Coordinates operations and fundraising

12 Adriaan Bayer
Operations Officer
(Dutch)
Former investment fund analyst; Project manager

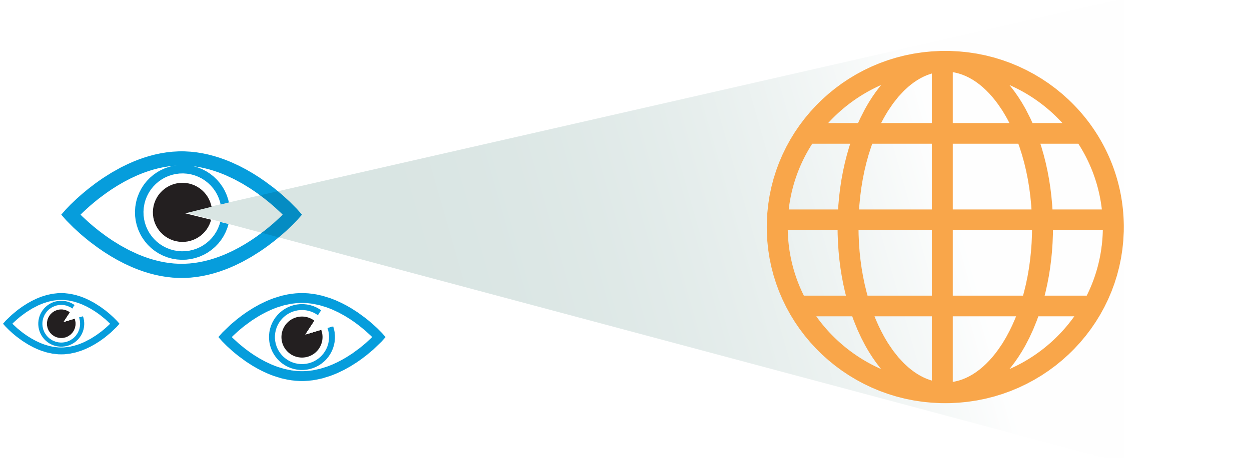
13 Bianca Tudor-Vinther
(until March 2014)
Office Manager
(Romanian)
Linguist; Office administration

We would like to acknowledge the hard work and enthusiasm of our interns in 2013: Zoé Cazals, Caroline Metz, Jean-François Wansart, Grazvydas Bareisis and Iacopo Levenheck.

ABOUT FINANCE WATCH

FINANCE WATCH'S VISION

Finance Watch's motto is "making finance serve society". OUR VISION is for a sustainable financial system that serves society and is founded on investing and not betting.



We would like to see:

- a banking system that is resilient and effective and that directs credit to productive use without extracting economic rents or transferring credit risks to society, and
- financial markets that encourage productive investment in the real economy and discourage excessive or harmful types of speculation.

Before either of these can happen, our leaders and civil society must act together to break the intellectual capture and dominance of the powerful financial industry lobby.

Finance Watch is working to share this vision with the public, regulators, political leaders, academics, think-tanks, the media, economists, and the bankers and business leaders of tomorrow.

We see the following measures as essential steps towards realising our vision:

- Reduce the overall level of financialisation of society.
- Build a resilient banking system that serves society and is not founded on moral hazard (including under a Banking Union).
- Raise awareness of the policy implications of credit and money creation by the banking sector.
- Build a financial system geared towards sustainable investing.
- Limit excessive or harmful speculation.
- Channel savings into sustainable long-term investments in the real economy.
- Regulate the financial sector effectively.
- Protect the interests of the general public.
- Restore ethical behaviour to the actors of the banking and financial sectors.

"I decided to open up the consultations, to multiply them, to open up the experts groups, to support Finance Watch and sincerely, I can tell you that every day I measure the benefits in the quality of the texts that we end up with."

Commissioner Michel Barnier

FINANCE WATCH CAMPAIGN

CHANGE FINANCE!

On 15 September 2013 – the fifth anniversary of the collapse of Lehman Brothers – Finance Watch launched the "Change Finance!" campaign, targeting the public and policymakers ahead of the 2014 European elections.

Developed with Finance Watch Members, the campaign's central message is that **FINANCIAL REFORMS UNDERTAKEN SO FAR ARE NOT ENOUGH**.

Interactive webpages explain that civil society can use its power to switch between a world in which finance dominates and a world in which finance serves the rest of society.

START

1980s
beginning of financial deregulation

Soaring financialisation
Finance is growing faster than the economy

FINANCE gains more power and influence

Leverage rises, banks are bigger and more interconnected, systemic risk increases

BANG
Crisis of 2008

GREAT RECESSION

Politicians say:
"NEVER AGAIN!"

2009 REFORM AGENDA
Pittsburgh Summit

But the financial lobby is powerful

REGULATIONS ARE WATERED DOWN

TARGET
Structure and size of finance not questioned

2013
Little has changed

Soaring financialisation
Financial assets = 350% EU GDP

BANKS ARE STILL
TOO BIG TO FAIL

Systemic risk increases again

BANG

NEXT CRISIS

In order
TO AVOID
A NEW CRISIS

Change
FINANCE

Put society **back in the driving seat**

Stop **subsidizing speculation**

Slim down **megabanks**

Incentivize **sustainable investing**

More than 20,000 people have visited the campaign pages and the materials have featured in press articles in Austria, Belgium, France and Germany. Finance Watch Members have since developed the messages in their own campaigns and used the materials in public meetings ahead of the European elections. A Members' Working Group is now developing one of the campaign's recommendations – the "Citizens' Dashboard".

PRESS COVERAGE OF THE CAMPAIGN

- **Format** "Fünf Jahre Krise"
- **Global Magazine** "Remettre la finance au service de la société"
- **La Tribune** "Cinq ans après Lehman Brothers, un système bancaire (pas tellement) plus sûr"
- **Euro am Sonntag** "Fünf Jahre nach Lehman: Gefährliche Mischung"
- **Der Standard** "Leben und Sterben im Schatten von Lehman"
- **Agence Europe** "Finance Watch wants change to world finance"
- **Novethic.fr** "Finance : changer les règles du jeu"
- **rtbf.be** "Réformer les banques : vraiment ?"

ELECTION YEAR 2014

HOW ARE THE EU'S INSTITUTIONS RENEWED?

NOVEMBER 2013

EUROPEAN COMMISSION
NOVEMBER 2013

Most European political parties launch an internal election to nominate candidates for the European Commission President, in line with a new provision in the Lisbon Treaty (Article 17).

The deadline for parties to nominate candidates for Commission President (to the Council) is 14 February 2014.

JANUARY 2014

EUROPEAN PARLIAMENT
JANUARY – MAY 2014

MEPs are campaigning in their constituencies until the elections in May, and are less visible in Brussels/Strasbourg.

National party manifestos aim to set the agenda for the next mandate.

APRIL 2014

EUROPEAN PARLIAMENT
14-17 APRIL 2014

Last plenary session of the 7th European Parliament.

MAY 2014

EUROPEAN PARLIAMENT
22-25 MAY 2014

European elections.

JUNE 2014

EUROPEAN PARLIAMENT
JUNE 2014

Political groups are formed and elect their leadership.

MEPs indicate on which committees they want to sit depending on their background, constituency and agenda.

JUNE 2014

EUROPEAN COMMISSION
26-27 JUNE 2014

The Council of the European Union (Heads of State) select their candidate for Commission president from party nominees.

Europe goes to the polls in May 2014 to elect a new European Parliament. As the new Parliament is formed, including reconstituting its committees and appointing a President, the EU's other institutions will also be renewed. The Commission requires a new President who will appoint a new College of Commissioners, and the Council of the European Union will also choose a new President. This timeline shows how the processes are expected to develop.

JULY 2014

EUROPEAN PARLIAMENT
1-3 JULY 2014

First plenary session of the 8th European Parliament.

Election of Parliament President and other high-level posts.

JULY 2014

EUROPEAN COMMISSION
14-17 JULY 2014

Parliament plenary hears and elects the Commission President-designate.

JULY AUGUST 2014

EUROPEAN COMMISSION
JULY-AUGUST 2014

Commission President selects the team of commissioners based on national government nominations.

Some existing Commission members will stay but are likely to change portfolio.

SEPTEMBER 2014

EUROPEAN PARLIAMENT
SEPTEMBER-OCTOBER 2014

Groups elect their committee coordinators.

Parliament committees start work on legislative files from the previous mandate, including unfinished trilogue negotiations. Unlike in national parliaments, dossiers that were not finished before the elections tend to be picked up by the incoming Parliament where left off.

SEPTEMBER 2014

EUROPEAN COMMISSION
MID-END SEPTEMBER

Parliament Committees organise hearings of the Commissioners-designate in their field of competence, in an attempt to commit future Commissioners to their policy agenda.

OCTOBER 2014

COUNCIL OF THE EUROPEAN UNION
OCTOBER (EST.)

Heads of State will elect the new President of the Council at a Summit.

NOVEMBER 2014

EUROPEAN COMMISSION
1 NOVEMBER 2014

Start date for the new Commission, unless the Parliament insists one or more Commissioners-designate are replaced.

This would require further hearings and postpone the installation of the new Commission with a few weeks to months.

DECEMBER 2014

COUNCIL OF THE EUROPEAN UNION
1 DECEMBER 2014

New President of the Council takes office.

LEGISLATION

Finance Watch

Making finance serve society

Photo credits: European Council, European Parliament, European Commission (TPCOM).

2013

DOSSIER ACTIVITY

FINANCE WATCH WORKED ON THE FOLLOWING DOSSIERS IN 2013:

* Topics mandated for 2013 by the General Assembly 19-20 November 2012

DOSSIER ACTIVITY

PRIPs

CONTEXT

Consumers should be able to compare financial investments and understand what they invest in. The European Commission proposed a regulation on “Key information Documents for investment Products” covering part of this agenda. The regulation requires that product manufacturers provide retail investors with a short information document before they invest. We refer to this dossier as “PRIPs” (Packaged Retail Investment Products), as we feel this better covers its content.

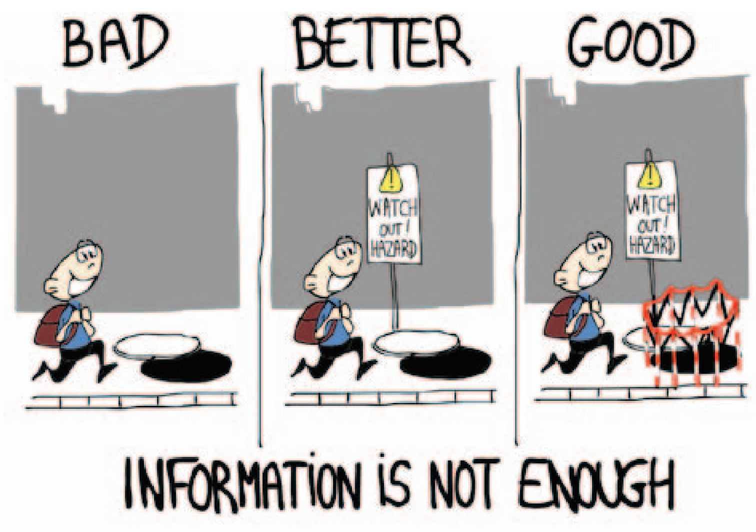
Legislative Activity

The European Commission says its proposal on Packaged Retail Investment Products (PRIPs) aims to boost consumer confidence in the financial sector by making information about financial products more understandable. It says it should help consumers and other non-professional investors to compare the risks and costs of products and make more informed and suitable investment decisions.

The proposed regulation introduces a Key Information Document (KID), building on the UCITS Key Investor Information Document and extending it to most financial investment products. The KID is a short synthetic document summarizing the key information of a financial product and product manufacturers must distribute it to non-professional investors before they invest.

The scope of the Commission’s proposal includes UCITS funds, the biggest category of retail investment vehicle, non-UCITS funds, insurance products linked to financial markets and other types of structured retail investment products.

The regulation was proposed in July 2012. The Council adopted its General Approach in June 2013, which can be described as less ambitious than the Commission proposal. The European Parliament approved its rapporteur’s final report in plenary on 20 November 2013, adding significant improvements to the Commission text. Trialogues took place in early 2014 and an agreement was reached on 1 April 2014. The inter-institutional agreement was approved by Parliament in plenary on 15 April 2014.



CALENDAR

15 April 2014
Parliament plenary vote

1 April 2014
Inter-institutional compromise agreed

29 January 2014
Start of negotiations between Parliament, Council and Commission

20 November 2013
Parliament adopts negotiation position in plenary
Finance Watch press release following the plenary vote

21 October 2013
ECON Committee vote

February 2013
Start of compromise negotiations between MEPs

24 June 2013
ECOFIN Council adopts negotiation position (General Approach)

19 April 2013
FW event for Member State attachés
Discussion paper on product rules for retail investment products

20 December 2012
ECON draft report by Pervenche Berès (S&D, France)

31 October 2012
Publication of Finance Watch position paper

3 July 2012
Commission publishes proposal for PRIPs Regulation

> “When it comes to buying investment products, retail customers are far from rational.”

Finance Watch's viewpoint

Research shows that, when it comes to buying investment products, retail customers are far from rational: their decisions are often affected by cognitive and emotional biases and they rely a lot on advice from salespeople who themselves do not always understand the risks in the products they sell.

The Commission proposal provides a good basis for the introduction of a KID. Finance Watch has suggested a number of recommendations, some of which were tabled as Parliamentary amendments and have been discussed in the trialogue negotiations:

- possible enlargement of the scope so that the KID requirement would apply also to packaged products, insurance products, pension products, and even shares and bonds;
- the introduction of a health warning or product design rules that would guide manufacturers to create products better suited to consumers and lead to fewer miss-selling cases and scandals;
- ensuring that the underlying methodology and disclosure format of the summary risk indicator enable retail investors to understand the risks attached to the product; and
- improved disclosure of fee structures. Fees can be disclosed transparently or embedded in the product, in which case they are not paid upfront but translate into lower potential returns, and the investor is never aware of them.

Why does this matter?

A KID for investment products should help consumers to choose products that are right for them. But labelling alone is not enough: dangerous or unsuitable products should not be sold at all.

If the KID is implemented in line with Finance Watch's recommendations, retail investors should be better protected from products that are unsuitable and they should find it easier to invest with confidence and to understand the risks and the true costs of the products they are investing in.

Actions of Finance Watch

Finance Watch published its six main recommendations in its October 2012 position paper, “Towards suitable investment decisions?” Some of these were taken up in the Parliament rapporteur's draft report in December. **At the start of 2013**, the team lobbied shadow rapporteurs to table our other recommendations as amendments, and we met all other MEPs who tabled amendments on our core priorities.

We published a second paper **in April** on product design rules and a “complexity label”. Product design rules aim to avoid miss-selling of investment products that are difficult for non-professional investors to understand.

The team met with representatives of Member States and the Irish and Lithuanian Presidencies, and **on 19 April** hosted a lunch for national attachés to present our ideas on product rules, which by then were already supported by a Parliament majority. Speakers at the lunch included supervisors from the UK, Belgium and France with hands-on experience of such product rules.

Turning to the Parliament **in May and June**, we circulated mock-up Key Information Documents showing how our ideas could work in practice, and after the summer break met with shadow rapporteurs to defend our ideas on a warning label and a wide scope for the regulation.

In June, we responded to a consultation by the International Organization of Securities Commissions (IOSCO) on the Regulation of Retail Structured Products.

In November, ahead of the plenary amendments deadline, Finance Watch joined with BEUC and EuroFinUse to write to ECON MEPs urging them to keep the scope of the regulation wide. Shortly before the vote, we independently e-mailed all MEPs to call on them to defend our position on the warning label.

The position that Parliament approved in plenary contained many improvements over the initial proposal, including a wider scope and the introduction of a warning label, echoing suggestions made in our position paper and discussion paper.

Outcomes

A warning label for products that are difficult to understand.

MEPs supported a wide scope for the KID to help consumers compare financial products across different “asset classes” and packaging formats. They also endorsed the creation of a warning label to warn consumers when a product they are about to buy is very difficult to understand for non-professional investors. These improvements were highly contested until the very last minute, but in the end were endorsed by a majority of MEPs in plenary. Despite the time pressure during trialogues, the final compromise on 1 April 2014 keeps the scope quite wide and introduces a “Comprehension alert” to serve as a warning label.

What's next ?

An agreement was reached just before the European elections and work will now continue to convince national regulators to apply the rules in a way that maximises impact. The new rules will apply as of mid-2016.

DOSSIER ACTIVITY

MiFID II

CONTEXT

The review of the Markets in Financial instruments Directive (MiFiD II) aims to make financial markets more efficient, stable and transparent. It is a landmark financial reform for the EU and covers market structure, over-the-counter derivatives trading, high-frequency trading (HFT), commodity derivative speculation and investor protection, among other topics.

Legislative Activity

The G20 leaders agreed at the 2009 Pittsburgh summit to promote exchange-trading and central clearing for over-the-counter derivatives, instruments that had helped to spread financial panic during the 2008 crisis. Leaders also committed to address excessive price volatility in commodity derivatives markets.

In response to the crisis and to market developments caused by MiFID 1, the Commission decided to issue the MiFID II package (a Directive updating MiFID 1 and a new Regulation) aiming to:

- extend the EMIR requirements to centrally clear over-the-counter derivatives by moving trading of standardised derivative contracts to regulated markets,
- reduce the exemptions for pre-trade transparency that under MiFID 1 had led to the popularity of "dark pools" (where prices and volumes are not made public prior to the trade),
- restrict high-frequency trading and excessive speculation on commodity derivatives (including agricultural products), and
- improve consumer protection for retail investors who buy financial products.

The Commission published its proposal for MiFID II in October 2011. The European Parliament adopted its report a year later, having debated more than 2,000 amendments. The Council adopted its General Approach in July 2013, after which the three-way negotiations with the Commission and Parliament (trialogues) could start. These meetings ran weekly from September 2013 and concluded, a little later than planned, with a political agreement in January 2014 and a final agreement on 6 February 2014, after final technical trialogues. The package was endorsed by Member State ambassadors on 19 February and formally approved by the European Parliament plenary on 15 April 2014.

Finance Watch's viewpoint

Financial markets have evolved away from their primary role of helping to allocate resources.

The popularity of commodity funds as an investment has led to speculators dominating commodity derivative markets that help to determine the price of food and other essential goods. Finance Watch backs the use of "position limits" to restrict the amount of speculation allowed and make food prices more secure.

The rise of high frequency trading techniques has opened the door to abusive trading strategies, in which some high frequency traders extract profits from ordinary (indirect) users of the market, such as people saving for their pension as well as from institutional investors. We support the introduction of tools for regulators to control this, such as a minimum tick-size which limits the smallest price movement for financial instruments.

Much financial trading now takes place in private, either between individual traders in the "over-the-counter" market or on "dark" trading venues where prices are not displayed to anyone else. As this hurts "price discovery" (the ability to determine a price for a financial instrument) and therefore optimal resource allocation, Finance Watch supports improved price transparency and more trading on "lit" exchanges.

Why does it matter?

The economy and society at large benefit when financial markets allocate resources well and at a low cost. If market prices become unreliable then financial resources may be allocated poorly and in some markets the supply of essential commodities used for food and energy production could be disrupted. Further, if the costs of financial intermediation are too high or if some types of trader are permitted to exploit others in the market, it is much harder for people to save for their future.

CALENDAR

1 January 2017
Full application of rules

June 2014 (estimate)
Publication in Official Journal and entry into force

Q2 2014
Start of drafting of technical standards (deliverable by Q2 2015) and delegated acts (deliverable by Q4 2014).

11 March and 15 April 2014
Council endorsement, Parliament plenary approved the agreement

January-February 2014
Technical trialogues to draft interpretation guidance in Recitals

15 January 2014
Finance Watch press release to welcome the agreement and call for strong Level 2 measures

14 January 2014
Political agreement among EU institutions

September 2013
Start of negotiations between Parliament, Council and Commission

9 July 2013
ECOFIN Council adopts negotiation position (General Approach)

26 October 2012
Parliament adopts negotiation position in plenary

24 April 2012
Finance Watch position paper on MiFID II, "Investing not Betting"

16 March 2012
ECON draft report by MEP Markus Ferber (EPP, Germany)

20 October 2011
Commission publishes proposals to revise MiFiD and introduce MiFIR

> Financial markets have evolved away from their primary role of helping to allocate resources."

Actions of Finance Watch

Having prepared the ground in 2012 with a position paper and other engagements, Finance Watch started 2013 by working to close a loophole around the central clearing of derivatives under EMIR (see "Outcomes" below). This was partly to prevent the loophole from disrupting the operation of any future position limits under MiFID.

From March to June, Finance Watch turned to engaging with Member States, urging them to follow the Parliament's line on commodity derivatives by introducing position limits and to create workable criteria for setting them. The team created national campaigning materials for Finance Watch's Members to contact their own governments who were negotiating in Brussels, and in April, Finance Watch's Head of Public Affairs Joost Mulder spoke at a Belgian parliament hearing on MiFID.

When the trialogue negotiations started in September between the Council, Parliament and Commission, the team started detailed monitoring of the four-column tables, which track the texts of the three institutions and any agreed items as they change from meeting to meeting. Over the next four months, Finance Watch had daily contact with relevant MEPs and their staff, Member State representatives, the Lithuanian Presidency and Commission staff, and organized weekly conference calls with Members to coordinate actions.

The focus of this work followed the negotiation agenda. **In September**, the details of the high frequency trading regime were negotiated, including the inclusion of a mandatory minimum tick size regime. **In October**, we lobbied against some Member States who tried to change the previously agreed Council position and water down the position limits regime by proposing "position management" as a credible alternative. And **in November**, debates evolved round the creation of a consolidated tape and the introduction of a limit ("volume cap") for trading on the least-regulated MiFID "venue", the Organised Trading Facility.

In December 2013 and January 2014, we pushed for improvements in the text that would require ESMA to set the formula for defining position limits, although we ultimately had to accept that ESMA would determine only the "methodology for calculation". There was also a last-minute fight to limit the exemption created for energy derivatives.

After the main political agreement in January 2014, the team lobbied successfully against a late attempt by financial lobbyists to water down the position limits regime through linguistic changes in the recitals of the directive and the legal drafting was completed on 6 February 2014.

Outcomes

The compromise reached puts into practice several of Finance Watch's recommendations.

Webinar: High Frequency Trading.

On HFT, the introduction of a minimum tick size regime should improve market order and integrity, provided it is properly calibrated at Level 2. HFT will be more transparent to supervisors and academics, thanks to the flagging of orders and the disclosure of algorithms.

The introduction of position limits on commodity derivatives was a standout accomplishment, achieved despite fierce opposition from the financial industry and thanks to a sustained campaign from NGOs including several Finance Watch Members. Their ultimate success will depend on how position limits are calibrated at national level, subject to Level 2 guidance.

The Organised Trading Facility platform will not allow for trading of equities, which removes the risk of most equity trading moving away from the most regulated platforms (traditional exchanges). On derivatives, whether MiFID II provides incentives for over-the-counter trading to move onto regulated platforms will depend on the calibration of the "volume cap".

On retail investor protection, MiFID II was a missed opportunity to introduce an EU-wide ban on inducements paid out to financial intermediaries, meaning that some consumers will continue to be exposed to biased financial investment advice. However, those who declare themselves independent advisors will have to refrain from accepting inducements, and member states can introduce or maintain existing national inducement bans.

The Level 2 outcome on EMIR closed a major loophole on the central clearing of derivatives. The loophole would have made it easier for non-financial corporates, such as airlines and oil companies, to engage in large scale financial speculation on derivatives beyond their genuine hedging needs.

What's next ?

Following formal approval of the final text by Council and Parliament (15 April 2014), Level 2 work can begin on setting technical standards. The Commission will have 6 to 12 months to approve some 90 delegated acts and technical standards. In particular the delegated acts are crucial for ensuring that the benefits of position limits, curbs on high frequency trading and other parts of the agreement can be realised for society's benefit. Finance Watch will therefore participate in the Level 2 consultation to defend the progress made at Level 1.

"Pots and pans" campaign outside Parliament (Photo: WDM).

DOSSIER ACTIVITY

TTIP

CONTEXT

In July 2013, the European Union and the United States began negotiations for a "Transatlantic Trade and Investment Partnership" (TTIP). It aims to remove trade barriers in a wide range of economic sectors and make it easier for companies in the US and EU to invest in each other's economy.

CALENDAR

By end of 2015 (Commission estimate)
Agreement

Q2-Q3 2014
Further negotiation rounds

18 March 2014
ECON hearing on TTIP and financial services

10-14 March 2014
4th Negotiation round in Washington DC

March 2014
Commission public consultation on ISDS

16-20 Dec 2013
Third negotiation round in Washington DC

11-15 Nov 2013
Second negotiation round in Brussels

8-12 July 2013
First negotiation round in Washington DC

14 June 2013
Negotiation mandate from member states to the Commission

Thierry Philipponnat speaking at a hearing of the European Parliament's ECON Committee, 18 March 2014.

Legislative Activity

At the November 2011 EU-US Summit, leaders established a High-Level Working Group on Jobs and Growth, led by US Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht. The Working Group was tasked to identify policies and measures to increase EU-US trade and investment. The final report of the Group, published on 13 February 2013, recommended launching the free trade agreement negotiations.

TTIP negotiations will take place subject to new provisions under the Lisbon Treaty, which gives the European Union the power to conclude international trade agreements. The European Parliament has the power to ratify or reject the final agreement, but unlike US counterparts, cannot amend the agreement.

Nevertheless, in May 2013, the Parliament adopted a resolution outlining its demands. On 14 June 2013, EU Member States gave a mandate to the Commission to enter into the formal transatlantic negotiations with the US.

Finance Watch's viewpoint

TTIP aims to increase the flow of financial services. However, a growing body of evidence shows a negative correlation between increased financial services and economic development.

The main argument in favour of including financial services in TTIP is that it could help to make financial regulation on both sides of the Atlantic converge. However, using a free trade agreement to achieve this goal risks a regulatory 'race-to-the-bottom' (convergence towards a lower level of regulation). For example, rules to promote the free movement of capital may lead to a higher risk of financial contagion, and rules to ensure equivalent outcomes on both sides of the Atlantic could weaken consumer protection.

In any case, international regulatory convergence is best achieved in multilateral forums.

Another contentious part of the TTIP is the Investor-State Dispute Settlement (ISDS) mechanism, which would allow companies to sue national governments that adopt rules that discriminate against foreign providers. While this is a standard feature in many trade agreements, its inclusion in the financial services part of TTIP could undermine national rules that are needed to protect citizens and taxpayers.

Why does this matter?

Trade negotiations and dispute mechanisms are not easily accessible to citizens and can be used by businesses to attack rules that they do not like, including those designed to protect consumers and taxpayers. As EU citizens suffered greatly from a range of financial abuses in the last decade, it is important that legislators have the freedom to put the public interest first and to regulate the financial system effectively.

Actions of Finance Watch

In April 2013, Finance Watch and SOMO met with the Commission's DG MARKT international affairs staff. In June 2013, Finance Watch teamed up with the US Institute of Agriculture and Trade Policy to lobby staff at the Commission, Parliament and Member States about ISDS.

In July 2013, we arranged meetings in Washington DC between a group of visiting ECON MEPs and our sister organization in the US, Better Markets.

In the last quarter of the year, Finance Watch attended stakeholder meetings and liaised with US contacts working on TTIP.

What's next?

After "unprecedented public interest in the talks", the European Commission in January announced a public consultation on ISDS, to start in March 2014. Finance Watch will respond to the consultation and has set up a working group of Members to help coordinate their responses to the consultation, and has participated in an ECON hearing on 18 March 2014. We are also developing a general lobbying strategy on TTIP, ahead of a policy note due later in 2014 with a detailed analysis of TTIP and its potential impact on financial regulation.

DOSSIER ACTIVITY

LONG-TERM FINANCING AND ELTIF

CONTEXT

The Commission's Long-term financing initiative (LTF) responds to concerns about the lack of growth and job creation and the heavy reliance of European corporates on bank lending. The initiative aims to promote alternative financing channels such as capital market financing for SMEs and infrastructure projects. It looks into the role of banks, equity markets, securitisation, accounting rules and other measures.

The first Commission legislative initiative that emerged from this workstream is a proposal for a new type of European Long-term Investment Fund (ELTIF), which would help investors to put money into companies and long-term projects.

Legislative Activity

In 2013 the IMF, OECD, FSB and other international institutions issued reports on factors affecting the availability of long-term investment financing. This was in response to commitments made at the G20 Summit in Mexico in 2012.

The European Commission contributed to this debate with a Green Paper on LTF published in March 2013, followed by a public consultation. Parliament responded to the Green Paper with a non-legislative report, adopted in February 2014. The Green Paper and the Parliament report consider a range of measures related to the role of development banks, securitisation, ELTIFs and tax and accountancy measures.

As a first step in the LTF strategy, the Commission published a legislative proposal for a new framework for ELTIFs in June 2013. Parliament rapporteur Rodi Tratsa-Tsagaropoulou (EPP, Greece) presented her draft report to the ECON Committee in November 2013. The final Parliament report on this piece of legislation should be adopted in April 2014, and negotiations on ELTIFs are expected to continue in the new Parliament.

Finance Watch's viewpoint

Promoting long term investments will have a positive impact on growth and job creation.

However for this growth to be truly sustainable, it is important to ensure that the desired growth of financing for SMEs and infrastructure does not create new risks.

We must also ensure that any increased private role in the funding of infrastructure provides value for money for users and taxpayers, through a fair sharing of risks and returns for all stakeholders.

Actions of Finance Watch

In the first half of 2013, Finance Watch responded to the public consultations on the LTF Green Paper and the ELTIF questionnaire, building on our LTF events and related work from 2012.

In the second half, the team met with shadow rapporteurs to discuss the ELTIF proposal. On 13 November, Senior Policy Analyst Frédéric Hache intervened at an EPP Group hearing in Parliament organised by the ECON rapporteur. We plan to publish a position paper on long-term financing in mid-2014.

CALENDAR

Long-Term Financing (Green Paper):

27 March 2014
Commission Communication on Long-Term Financing

26 Feb 2014
Parliament plenary approves LTF report

22 Jan 2014
ECON approves LTF report

5 Nov 2013
ECON draft report on LTF by Wolf Klinz (ALDE, Germany)

26 June 2013
Finance Watch responds to Commission consultation on LTF Green Paper

25 Mar 2013
Commission publishes Green Paper on LTF

ELTIF Regulation (legislative):

17 April 2014
Parliament plenary vote on ELTIF

24 February 2014
ECON approves ELTIF report

13 Nov 2013
Finance Watch speech at EPP Group hearing on ELTIF

8 November 2013
ECON draft report on ELTIF by Rodi Kratsa-Tsagaropoulou (EPP, Greece)

26 Jun 2013
Commission publishes proposal for ELTIF Regulation

8 March 2013
Finance Watch responds to Commission questionnaire on a common framework for ELTIFs

Outcomes

Finance Watch made recommendations on the drafting of Parliament's report on the LTF Green Paper and the report on the ELTIF Regulation, e.g. on eligible assets. However, most of the work will take place in 2014 and 2015 when the Commission presents its follow-up agenda on long-term financing.

What's next?

The Parliament approved its position on long-term financing in February 2014, bringing this procedure to an end. Inter-institutional negotiations on the ELTIF Regulation will start in the next Parliament. Finance Watch will publish a position paper in mid-2014 and work with newly elected MEPs in the next Parliament on ELTIF and any other legislative follow-up that my come from the Commission.

DOSSIER ACTIVITY

SHADOW BANKING / MMF

CONTEXT

Considered part of the shadow banking sector, Money Market Funds (MMFs) are mutual funds that invest mainly in short-term debt issued by banks, (local) governments or corporations. MMFs are often perceived by investors as a safe and more diversified alternative to bank deposits. However, a key difference with bank deposits is that their value fluctuates with that of their underlying investments.

Legislative Activity

The Commission's proposal on MMFs aims to ensure that MMFs can better withstand redemption pressure at times of market stress by enhancing their stability and strengthening investor protection. This is because MMFs are systemically relevant: almost 40% of short-term debt issued by the banking sector is held by MMFs. A run on the sector could cause difficulties at banks and corporates alike.

Two types of MMFs exist: those with a Constant Net Asset Value (CNAV), promising a return of 1 euro or dollar against a share at any time, and those with a fluctuating Variable Net Asset Value (VNAV). CNAVs are liable to investor panic if the fund suffers significant losses, as happened during the crisis. To reduce this risk, the legislative proposal introduces a buffer to absorb losses (at 3% of the fund's value) at MMFs that use the CNAV system.

MMFs are one of five areas to be examined under the Financial Stability Board's shadow banking work programme and the first to see a Commission legislative proposal, which seeks convergence with recommendations from the FSB and the European Systemic Risk Board (ESRB).

The Commission proposal follows its March 2012 Green Paper on Shadow Banking and the Parliament's non-legislative report on the Green Paper, adopted in November 2012.

Finance Watch's viewpoint

The Commission proposal includes positive elements such as rules defining which assets MMFs can invest in ("eligible assets") and a restriction on the provision of external support by a fund sponsor in times of stress.

We support the intention of the CNAV buffer, as it highlights the fact that MMFs are not deposits and that their assets are subject to price fluctuations.

However, in our view it is unfortunate that "eligible investments" can include securitised assets, as these increase the indirect exposure or leverage of MMFs.

Why does it matter?

With the collapse of Lehman Brothers in 2008, some MMF investors realized that they were exposed to major counterparty risks, for example if a bank whose debt the MMF had bought became unable to fulfil its commitments. Consumers and professional investors who buy MMFs should have appropriate protection from such risks.

Actions of Finance Watch

Finance Watch's consultation response on shadow banking provided a strong basis to influence MEPs working on shadow banking and on MMFs throughout 2013.

What's next?

The dossier ran into delays since ECON MEPs disagreed about how to protect investors in CNAV funds (mandatory conversion to VNAV, redemption buffers or liquidity gates). As soon as ECON finally approves the report it will be discussed in plenary and trialogues with the Council will start in September earliest, in the next Parliament. As soon as the new ECON Committee approves the report, trialogues with the Council will start.

CALENDAR

15 Nov 2013
ECON draft report by Saïd El Khadraoui (S&D, Belgium)

4 Sep 2013
Commission publishes proposal for Money Market Funds Regulation

20 November 2012
Parliament plenary adopts non-legislative report on shadow banking

19 October 2012
Finance Watch responds to Commission consultation on the future of UCITS, raising MMF issues

1 June 2012
Finance Watch responds to Commission consultation on shadow banking

19 March 2012
Commission Green Paper on shadow banking

27 October 2011
FSB report for G20 on shadow banking

DOSSIER ACTIVITY

CRD IV

CONTEXT

The Capital Requirements Directive IV package (CRD IV/CRR) is the EU's legislation to implement Basel III, the international agreement on bank capital standards. CRD IV increases capital and liquidity requirements for European banks to make banks more robust in a crisis and harmonises the European framework for bank supervision through the implementation of a "single rulebook". It also imposes caps on banker bonuses and country-by-country reporting.

Frédéric Hache speaking at a hearing in the German parliament, 7 May 2013.

Activity

CRD IV was a major topic for Finance Watch in 2011 and 2012 (see case study on page 15 of our previous annual report*). The package was finalised in early 2013 and has applied since 1 January 2014, although some member states have not been able to transpose the Directive on time and not all Level 2 guidance work has been completed. We continue to monitor the drafting of selected technical standards by the European Commission with input from the European Banking Authority.

We were disappointed that policymakers in the final stages of the negotiations in early 2013 postponed the Basel III agreement to introduce a leverage ratio cap. There is, however, a mechanism to introduce a leverage cap in a separate legislative procedure to be initiated by the end of 2016 that we will engage in.

On 7 May 2013, Finance Watch was invited to speak at a public hearing in the Finance Committee of the German Bundestag on the German implementation of the CRD IV, after which we published a detailed opinion on CRD IV on our website.

CALENDAR

By end of 2016
Commission report with possible legislative proposal to introduce a leverage cap

In 2015
Liquidity Coverage Ratio starts to apply (at 60% of final value)
Public disclosure of the leverage ratio

1 January 2014
National implementation deadline; rules start to apply

Q3 2013
Start of work on Level 2 measures

27 June 2013
Final text published in Official Journal

16 April 2013
Parliament endorses agreement in plenary

27 February 2013
Political agreement among EU institutions

June 2012
Start of negotiations between Parliament, Council and Commission

30 May 2012
Parliament adopts negotiation position in ECON Committee

15 May 2012
ECOFIN Council adopts negotiation position (General Approach)

20 July 2011
Commission publishes proposal for CRD IV

* *Corrigendum*: in contrast to the assessment in our 2011-2012 Annual Report, Finance Watch's suggestion to require banks to disclose the return on assets in their annual reports did actually make it into the CRD IV agreement, as Article 90. In our view, the return on assets is a better indicator of profitability than the return on equity, as the latter incentivizes banks to lower the equity in their liability mix and therefore increase fragility.

DOSSIER ACTIVITY

BANK STRUCTURE

CONTEXT

European and national level initiatives have been presented to reform the structure of banks, including the possible separation of deposit-taking from trading activities. The EU's proposal follows the report of a High Level Expert Group led by Erkki Liikanen which looked into whether structural reforms are needed to increase stability and customer protection in the EU banking sector.

Legislative Activity

The Commission's High-Level Expert Group (HLEG) presented its report in October 2012, recommending among other things that large banks move certain trading activities above determined thresholds into a separately capitalised subsidiary.

The Commission then launched a consultation on the recommendations and a follow-up consultation in May 2013, which drew a large number of public responses.

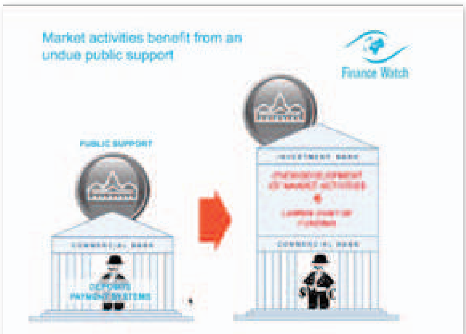
In July 2013, Parliament adopted an opinion broadly supporting the HLEG recommendations in a non-leglislative ("own-initiative") report drafted by Arlene McCarthy MEP (S&D, UK). The report called for the "separate operation" of essential and non-essential activities.

At national level, France and Germany enacted weak structural reforms that separate only proprietary trading, a small portion of overall trading activity. These national reforms were described by the Commission as a baseline that, if adopted at EU level, would reflect "no policy action". A stronger national reform was enacted in the UK, where banks must ring-fence their deposit banks from most of their trading by 2019. Initiatives are also underway in the Netherlands and Belgium.

The Commission published its legislative proposal "on structural measures improving the resilience of EU credit institutions" in January 2014. Its main elements would:

- ban large banks from trading financial instruments and commodities for their own account (proprietary trading); and
- grant supervisors the power and, in certain instances, the obligation to require the transfer of other high-risk trading activities (such as market-making, complex derivatives and securitisation operations) into separate legal trading entities within the group.

The Commission published a separate proposal on securities financing transactions, partly to address the risk of activities moving into the shadow banking sector due to tighter bank regulation.



Webinar: Bank structure.

CALENDAR

29 January 2014
Commission publishes legislative proposal

18 December 2013
UK adopts Banking Reform Act

4 October 2013
Belgian Finance Minister announces plans to legislate on reforming banking structure

5 September 2013
Finance Watch report *"Europe's banking trilemma"*

7 August 2013
Germany adopts law on bank risk management and recovery and resolution planning

26 July 2013
France adopts law on separation and regulation of banking activities

11 July 2013
Finance Watch responds to Commission consultation on the Structural Reform of the Banking Sector

3 July 2013
Parliament adopts report on reforming the structure of the EU banking sector in plenary

27 June 2013
Report from the Netherlands' Commission on the Structure of Dutch Banks, chaired by Herman Wijffels

8 March 2013
ECON non-legislative report presented by MEP Arlene McCarthy (S&D, UK)

22 April 2013
Finance Watch position paper on German bank structure reform

8 April 2013
Finance Watch publication "The importance of being separated"

13 February 2013
Finance Watch submits written evidence to UK Parliament

29 January 2013
Finance Watch suggests amendments to the French bank structure reform

13 November 2012
Finance Watch responds to Commission consultation on HLEG recommendations

2 October 2012
HLEG presents its final report to the Commission

> Bank structures can embed funding subsidies that distort and damage the market economy."

Finance Watch's viewpoint

Bank structures that combine commercial and investment banking distort the cost of funding for investment banking, because this activity benefits from an implicit state guarantee. This leads to the overdevelopment of risky trading activities and feeds systemic risk.

Separating trading from credit would cut this link and is a vital step in ending too-big-to-fail banking. It would also help banks to focus more on serving the real economy.

Separation would also give credibility to the EU's plans for large banks in trouble. Without this credibility, the Banking Union may fail to protect citizens from a bank failure.

To achieve these goals, structural reforms must substantially separate all trading - including market making and derivatives - from deposit banking activities. The EU proposal and the UK law both aim to do this. The French and German laws, which separate only a small part of bank trading, do not.

In Finance Watch's view, the EU proposal has the right objectives but a fragile mechanism. It could potentially lead to beneficial structural reforms but the mechanism for achieving the separation of trading activities from deposit banking activities is fragile and the outcome is highly uncertain. If this is not strengthened, the proposal is unlikely to achieve its public interest objectives.

Why does it matter?

Bank structures can embed funding subsidies that distort banking and financial markets.

Opinion polls show that a large majority of citizens in different EU countries would like to see smaller, less powerful and properly separated banks.

If structural reform of banks is not effective, the pain of the last financial crisis is likely to be repeated. Additionally, citizens may have to bail out banks in other Member States, putting political strain on the EU and Eurozone.

"Time to cut the umbilical cord between bank deposits and financial trading" (press release 23 May 2013).

Activities of Finance Watch

Finance Watch followed up its 2012 work on bank structure by engaging closely with Parliament and Commission officials in 2013, publishing research on the link between bank structure and Banking Union, and working to raise public awareness of the importance of bank structure reform.

In Parliament, the team met with MEPs in Brussels and Strasbourg including rapporteur Arlene McCarthy and their staff to ensure that the Parliament's non-legislative report reflected key elements of the debate. **In November**, Finance Watch organized an event for MEPs to hear former FDIC Chair Sheila Bair and other speakers exchange views with the Commission staff responsible for the bank structure proposal.

Other interactions with the Commission took place throughout the year. These included participating in a Commission stakeholder hearing **on 17 May** to present Finance Watch's position on bank structure reform. **On 11 July**, we published a 21-page response to the Commission's consultation. In October the team met with the Commission's responsible unit to discuss technical aspects of the reform. Head of Unit Alain Deckers delivered a keynote speech at our "Five Years After" conference the following month. **In November and December**, we talked to many Commissioner cabinets to build internal Commission support for the proposal.

During the year, we engaged with organizations conducting quantitative and qualitative research on bank structure, including the OECD. **In August**, our Secretary General participated in a panel discussion on the topic at the European Forum Alpbach in Austria, among other speaking appearances.

In April, Finance Watch published a 16-page policy note "The importance of being separated" to debunk bank lobby myths against bank structure reform, which was supplemented by a webinar for the public. **In September**, we published a 34-page paper "Europe's Banking Trilemma" arguing that structural banking reform is essential for a successful Banking Union. This work was supported by ten press releases, six blog articles and nearly 100 external press articles and broadcasts.

Outcomes

Parliament's opinion and the Commission proposal both contain elements that Finance Watch welcomes: the need to reduce implicit support and subsidies, make bank resolution credible, reduce interconnectedness via derivatives, and avoid resource misallocation, among other things. Many members of the public seem to share this view: Finance Watch's call for the public to respond to the Commission's summer consultation drew 439 individual responses.

Unfortunately, the French and German reforms ignored this thinking while the EU's proposal, despite having the right objectives, contains procedural weaknesses that could make it ineffective if they are not addressed in the next Parliament.

What's next ?

The January 2014 legislative proposal was presented too late for the Parliament to take it up before the European elections. It will be among the first dossiers for the 2014-2019 Parliament. Finance Watch will engage closely on the proposal with the next Commission and Parliament.

DOSSIER ACTIVITY

BANKING UNION

CONTEXT

The EU's Banking Union is a political vision to support monetary and economic integration by strengthening bank regulation (the 'single rulebook') and supervision of the banking sector and facilitating cross-border resolution of banks that get into trouble. Covering the Eurozone area and countries that decide to opt-in, its main components are the Single Supervisory Mechanism and the Single Resolution Mechanism.

Legislative Activity

The goal of the Banking Union is to foster financial stability in Europe and especially in the Eurozone. It aims to address the "vicious circle between banks and sovereigns", in which the solvency of banks and the individual sovereigns that stand behind them become interlinked, by mutualising risk and moving responsibility for bank supervision and crisis management from national to European level.

The Single Supervisory Mechanism (SSM) entered into force on 4 November 2013 and will hand the European Central Bank (ECB) responsibility for supervising Eurozone banks from November 2014. The ECB will directly supervise around 130 of the largest Eurozone banks and work together with national supervisors to oversee the smaller banks.

The Single Resolution Mechanism (SRM) includes the Single Resolution Fund (SRF) and the Single Resolution Board (SRB), which will apply the pre-agreed system of rules introduced by the Bank Recovery and Resolution Directive (BRRD). The BRRD aims to ensure financial stability and minimise public losses after a bank failure by making sure losses are allocated to bank shareholders and creditors ("bail-in") before external funds are used, including the SRF. The Council and Parliament agreed on the BRRD in December 2013. At the same time they adopted negotiating positions for trialogues on the SRM that resulted in a political agreement in March 2014.

In addition, ECOFIN and the Eurogroup agreed that the European Stability Mechanism (ESM) will be able to recapitalize banks that need rescuing if the SRF is insufficient and neither investors nor the government are able to provide funds. In this case, the ESM could fund direct recapitalization instruments up to a total amount of €60 billion.

Rules to harmonise and improve the EU's various national Deposit Guarantee Schemes (DGS) were agreed on 17 December 2013, formally harmonising protection for bank deposits at €100,000.

CALENDAR

1 January 2016
Bail-in and resolution functions apply under BRRD

1 January 2015
SRM enters into force

November 2014
ECB to assume responsibility for bank supervision under the SSM

20 March 2014
Political agreement among EU institutions on SRM

18 December 2013
ECOFIN Council adopts negotiation position (General Approach) on SRM
Council and Eurogroup agree on use of ESM as backstop

17 December 2013
Parliament adopts negotiation position in ECON on SRM
Political agreement among EU institutions on harmonising DGS

12 December 2013
Political agreement among EU institutions on the EU framework for BRRD

4 November 2013
SSM enters into force

5 September 2013
Finance Watch report *"Europe's banking trilemma"*

10 July 2013
Commission publishes proposal for SRM Regulation

25 March 2013
Final Troika agreement on Cyprus bank rescue

18 March 2013
Finance Watch report on BRRD

12 September 2012
Commission publishes proposal for SSM Regulation

29 June 2012
Eurozone leaders call for banking union legislation

6 June 2012
Commission publishes proposal for BRRD Directive

> “It was not the lack of a resolution framework that caused bank bailouts in 2008: it was the fear of spreading risk through the financial system due to the massive size, complexity and interconnectedness of banks.”

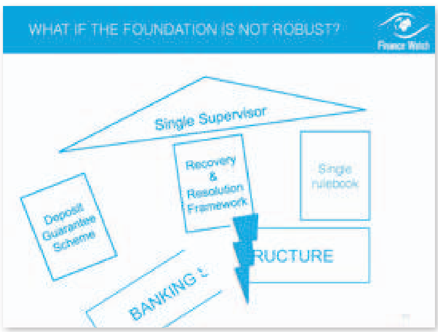
Finance Watch's viewpoint

In order for Banking Union to address moral hazard (the situation where banks can take risks at the expense of others) it must establish a credible resolution mechanism that will see private creditors of banks bear the costs of potential future bank defaults. To achieve this, Banking Union must have a bank resolution mechanism that is credible, with a robust bail-in mechanism and adequately funded crisis management funds.

The credibility of the resolution mechanism is crucial and in our view will be hard to achieve without a structural separation of banks' commercial and investment banking activities. During a financial crisis, having a resolution framework in place is not sufficient if there is fear of spreading risk to the rest of the financial system due to the massive scale, complexity, and interconnectedness of banks. The proposed resolution and recovery mechanism runs the risk of struggling to cope with a large or systemic bank failure if the complexity and interconnectedness of the banking system are not reduced

Why does it matter?

The financial crisis hurt EU citizens twice: once when the financial markets fell and again – much harder – when the economy contracted. Banking Union is designed to address the vicious circle between banks and sovereigns where banks hold sovereign debt but depend on sovereigns to bail them out if they default, which causes the solvency of banks and states to be linked to each other. If Banking Union works, it should lower the risk of states having to pay for bank bail-outs with all the negative consequences of such situations for Eurozone citizens, such as being plunged into austerity policies.



The success of Banking Union depends on banks having the right structure.

Activities of Finance Watch

Finance Watch published a 35-page report on the Commission's Bank Resolution Recovery proposal **in March 2013**. The report highlighted the importance of creditor bail-in (where bank creditors are required to take their share of losses if a bank gets into trouble) as a tool for imposing market discipline on banks and reducing the cost and likelihood of bailouts.

The report was published during the Cyprus banking crisis, in which an initial rescue deal had proposed to allocate bank losses to depositors but not to bank creditors. We published our report together with a press release **on 19 March** criticising the deal as contrary to the principle of creditor hierarchy.

When the deal was revised a few days later to impose losses on bank creditors and exempt insured depositors from losses, we issued a second press release to support the outcome on the grounds that we think bank creditors (but not small depositors benefiting from the guarantee of deposits) should take responsibility for the risks they take on.

The BRRD report was later developed into the publication “Europe's banking trilemma” and distributed to policymakers **in September** as they started work on key Banking Union negotiations. The report highlighted three ways in which the recovery and resolution mechanism can become jammed: if resolution were attempted for a bank that was too-big-to-fail, too connected-to-fail, or too-complex-to-fail. The report concludes that bank structure reform is needed to make resolution, and therefore Banking Union, credible.

In June, we participated in a panel discussion at a conference organized by the European Liberal Forum in Munich.

In September, our Secretary General Thierry Philipponnat made a statement on Banking Union at the EUROFI conference in Vilnius.

On 16 September, we spoke at a briefing in the European Parliament organised by the European Shadow Financial Regulatory Committee.

In October, Finance Watch participated in online discussions with the public as part of the EU's Single Market Month to address banks themes. We submitted our ideas and replied to written questions.

Outcomes

In 2013, Finance Watch focussed on highlighting the risk that if a systemically important bank gets into trouble, resolution authorities will not feel able to impose losses on the bank's creditors if those creditors are themselves systemically important.

This view was reflected in the July 2013 Parliament opinion on bank structure reform and in the objectives of the January 2014 Commission proposal on bank structure reform. So far, however, a structural reform of the EU's banking sector still appears some way off.

What's next ?

All components of Banking Union were agreed just in time before the end of the current Parliament's term. The ECB will begin bank supervision in November 2014 after completing its comprehensive assessment including asset quality review.
That will leave one missing piece: the Commission's bank structure reform proposal (see preceding page).

DOSSIER ACTIVITY

UCITS V

CONTEXT

UCITS stands for Undertakings for Collective Investment in Transferable Securities, a popular category of regulated investment vehicle that accounts for around 85% of all European investment fund assets. UCITS are popular as they provide a European-wide standard for cross- border sales of investment products and a certain level of consumer protection.

CALENDAR

April 2014
Formal endorsement by Council and the Parliament

25 February 2014
Trialogue agreement

Q3 2013
Start of negotiations between Parliament, Council and Commission

3 July 2013
Parliament adopts negotiation position in plenary

9 November 2012
ECON draft report presented by MEP Sven Giegold (Greens, Germany)

18 October 2012
Finance Watch responds to Commission consultation on the future of UCITS

3 July 2012
Legislative proposal on UCITS depositories, remuneration and sanctions published (UCITS V)

Activity

UCITS V is the most recent update to the EU's regulatory framework for UCITS, which originally dates from 1985. The Commission's proposal aimed to tighten rules on depositaries, following shortcomings revealed by the Lehman Brothers bankruptcy and the Madoff fraud.

Finance Watch worked only indirectly on this dossier in 2013, raising points in relation to PRIPs, long-term financing, MiFID and MMFs, namely:

- only assets that are suitable for retail investors should be eligible for UCITS funds,
- only standard derivatives should be allowed (i.e. not so-called "exotic" derivatives) and they should be traded on exchanges,
- the proposal for a depositary EU passport could introduce new cross-border risks for UCITS investors,
- the role that money market funds (MMFs) play in funding the banking system creates a strong risk of contagion in the event of a run on MMFs,
- if ELTIFs are introduced as a special category of long-term UCITS, they should allow investments in the normal range of UCITS assets, apart from commodity products and possibly real estate, but have longer-term performance measurements, liquidity rules and compensation structures.

European Parliament building in Strasbourg (Photo: EP).

DOSSIER ACTIVITY

REVIEW OF LEVEL 2 PROCESS

CONTEXT

The European Parliament's Economic and Monetary Affairs Committee (ECON) held a public consultation in the first half of 2013 on "enhancing the coherence of EU financial services legislation". The outcome was an informal report by ECON that can serve as a handover note to the next Parliament to help improve financial rulemaking after the European elections.

CALENDAR

30 January 2014
ECON adopts final non-legislative report

23 January 2014
ECON Consideration of amendments

18 December 2013
Finance Watch suggests amendments to the draft report

25 November 2013
ECON publishes summary of consultation responses

21 November 2013
ECON draft report presented by Sharon Bowles (chair)

13 June 2013
Finance Watch responds to the consultation questionnaire

March 2013
Start of consultation on coherence of financial services legislation

(Non-legislative) Activity

The ECON Committee initiated the consultation as a feedback exercise after an unusually busy mandate in which it had worked on many inter-connected pieces of legislation following the financial crisis. The questionnaire asked questions about various topics, including overlaps in legislation, national implementation, the setting of Level 2 technical standards by the European Supervisory Authorities (ESAs), coordination and interaction with related legislation and how to improve stakeholder participation.

The draft report underwent an amendment process and was finally adopted by ECON in January 2014. It highlights a number of suggestions from the 86 responses and makes informal recommendations for the incoming Commissioner and MEPs.

Finance Watch's viewpoint

In our consultation response we strongly contested the common assumption, promoted by the financial industry, that regulation is always "bad".

The current legislative framework for financial services in Europe is a large patchwork, consisting not only of overlaps (against which the financial sector lobbies) but also significant gaps. One of the reasons for the patchwork is that rules which should be applied "horizontally" across the financial sector (e.g. on bonuses or depositary liability) tend to be tagged onto "vertical" single-industry legislation (e.g. hedge funds, credit rating agencies).

We rejected financial sector claims that the order and speed of legislative reform is unacceptable. In our view, the need to continuously calibrate legislation is an unavoidable consequence of the fact that large parts of the financial sector were previously unregulated.

Political negotiations behind closed doors (shadow rapporteur meetings, Council Working Groups and trialogues) are very transparent for financial sector lobbyists but hard to follow for many non-financial sector stakeholders. More transparency about schedules, minutes and circulated drafts would help to counterbalance undue financial sector influence on this part of the process.

We called for sharper boundaries between Level 1, where high level decisions are settled by co-legislators in a democratic arena, and Level 2, where supervisors develop the technical standards to implement Level 1 choices. In many cases, political choices have deliberately been dressed up as technical matters to make a high-level deal possible, leaving the political interpretation to Level 2, where it is subject to massive lobbying.

Member states are more and more taking national initiatives merely to pre-empt European debates, such as the German HFT law and the French/German bank structure reforms. If European legislators are serious about increasing coherence in legislation, they should stop this damaging trend and harmonize existing national rules.

Finally, we noted that international organisations such as the Basel Committee are not subject to any (direct) democratic oversight, whereas their decisions are close to binding on the EU and leave little room for manoeuvre. Non-financial sector stakeholders find it difficult to make their voice heard at this level, which puts them at a disadvantage even before the European negotiations start.

Why does this matter?

ECON's feedback exercise should help the next Parliament to improve the way financial regulation is made. This could lead to better access for civil society representatives to lawmaking processes currently dominated by the financial industry and should, therefore, deliver better outcomes for citizens.

Actions of Finance Watch

In the **first quarter of 2013**, Finance Watch provided advice as the questionnaire was prepared. In **May and June**, we consulted with Finance Watch Members to collect their views and submitted our response to the questionnaire on 13 June.

In **November**, ECON published a summary of responses together with its draft report, after which our team analysed all 86 responses and in **December** suggested a series of amendments to the report.

Outcome

ECON's final report took on board several Finance Watch ideas that we hope will be taken into account in the next mandate. These include suggestions to make the decisions of international bodies such as the Basel Committee subject to more democratic scrutiny and to sharpen the boundaries between Level 1 and Level 2 measures. The report also said a study would be commissioned on different or missing pieces of regulation.

DOSSIER ACTIVITY

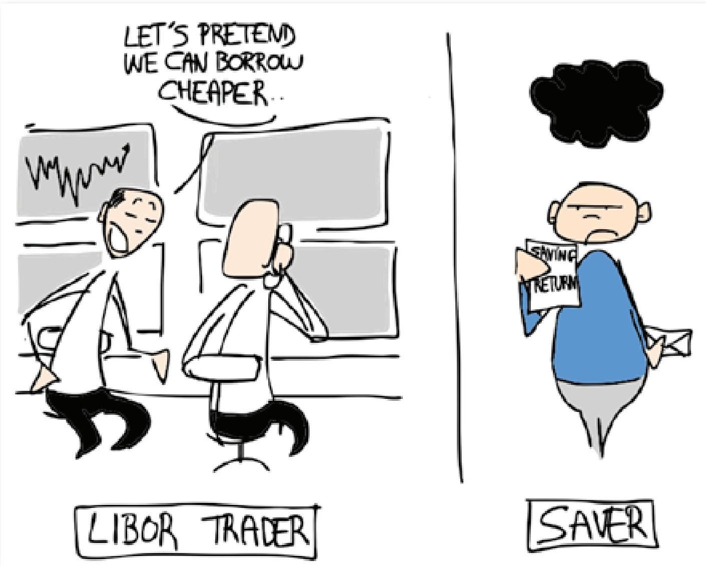
OTHER INTERVENTIONS

NON-BANK RECOVERY AND RESOLUTION

Banks are not the only financial institutions that are considered systemic and that may disrupt the financial system if they fail. This is why Finance Watch engaged in the debate on **recovery and resolution for non-bank financial institutions**, such as Central Securities Depositories and Central Clearing Counterparties. Both are typical examples of lesser known but crucial elements of the financial system, without which financial trading would not function and there would be no certainty about who owns which financial instrument. Our Head of Public Affairs spoke at the European Parliamentary Financial Services Forum in July 2013.

BENCHMARKS

In July 2012, the Commission amended its legislative proposal on the Market Abuse legislation to address **benchmark fixing scandals**. We continued our work on this legislation as it was connected with the MiFID review (see page 22). A separate work stream was launched in December 2012 with a broader Commission consultation on **"indices used as benchmarks"***, which led to a legislative proposal in September 2013. We responded to requests from MEPs and journalists and suggested improvements on this second package, related to the codes of conduct, the scope of the Regulation, civil liability and appropriateness.



Finance Watch

Response to EC Consultation on the review of the European System of Financial Supervision

Response by Finance Watch

30 July 2013

Finance Watch is an independent, non-profit public interest association dedicated to making finance work for society. Its members represent, collectively, many millions of European citizens and include consumer groups, trade unions, housing associations, financial experts, foundations, think tanks, environmental and other NGOs.

Finance Watch was founded on the following principles: finance is essential for society and should serve the economy, capital should be brought to productive use, the transfer of credit risk to society is unacceptable, and markets should be fair and transparent.

Finance Watch is funded by grants, donations and membership fees. It does not accept any funding from the financial industry or political parties. For 2012 and 2013, Finance Watch has also received funding from the European Union to implement its work programme (there is no implied endorsement by the EU of Finance Watch's work, which is the sole responsibility of Finance Watch).

Finance Watch was registered on 28 April 2011 as an Association Internationale Sans But Lucratif (non-profit international association) under Belgian law. Finance Watch AISBL is registered in the EU Joint Transparency Register under registration no. 37943526882-24.

Finance Watch authorizes the publication of this consultation response.

For further questions about this response, please contact katarzyna.hanula-bobbitt@finance-watch.org at Finance Watch.

1

REVIEW OF ESAs

Two years after the creation of the **European financial supervision authorities** (the three "ESAs") and the European Systemic Risk Board, the Commission consulted about their performance so far. We responded to the consultation because developing supervision at the European level is an important part of the European response to the financial crisis. In our response, we described our experience working with the ESAs and explained that to function properly, the ESAs should be transparent and engage with all stakeholders.

MARKET ABUSE PACKAGE

The **Market Abuse package** (MAD and MAR) was presented together with the MiFID Review in 2012, although negotiations on Market Abuse progressed more quickly and were completed in September 2013. Thanks to the new Market Abuse Regulation, all financial trading including on over-the-counter basis and in commodities is now subject to a similar set of rules and penalties in case of abusive behaviour. Finance Watch responded to requests from MEPs in connection with the work on MiFID.

CORPORATE GOVERNANCE

The Corporate Governance package will also include a review of the **Shareholder Rights Directive**. In early 2013, the Commission organised a stakeholder hearing as part of the consultation on this review. Together with our Member organisations, we prepared a response to a Commission questionnaire, supporting Commission initiatives to better align voting rights to long-term shareholder interests, disclosure of Economic, Social and Governance objectives and improved "fiduciary duty".

OCCUPATIONAL PENSIONS

An important part of the pensions agenda was developed in 2013, as the Commission prepared its work on reviewing the **Institutions for Occupational Pensions (IORP) Directive***. As simulations ("Quantitative Impact Studies" or QIS) went on in 2013, and Member States raised their objection to harmonised capital requirements for pension funds, the Commission took an important policy step by deciding that such capital requirements would not form part of the IORP 2 package published in March 2014. Without expressing a specific position as to whether capital requirements legislation should be extended from banks and insurers to pension funds, Finance Watch monitored developments and engaged with other stakeholders on this important dossier.

INSURANCE MEDIATION DIRECTIVE

In tandem with the Regulation for Packaged Retail Investment Products (PRIPs, see page 20), the Commission presented legislation to harmonise rules for the intermediation (sale) of insurance products: the **Insurance Mediation Directive** (IMD). Our approach to consumer information has always been that information should be comparable between different types of investment products and that similar rules should therefore apply to insurance and other financial investment products. Although we focused our lobbying work on PRIPs, we monitored the IMD negotiations to make sure that both pieces of legislation would be compatible and achieve the same goal, for instance on the treatment of inducements (kickbacks) for sales staff.

TAXATION AND COUNTRY-BY-COUNTRY REPORTING

We were approached by MEPs working on the non-legislative report on the "**Fight against Tax Fraud, Tax Evasion and Tax Havens**". Together with a few Member organisations, we suggested to extend country-by-country reporting to all corporates (and not just for banks, as mandated in the CRD IV). This would make it more transparent for citizens and investors to see where profits of corporates are made and where they are taxed. The report also looks into Anti-Money Laundering provisions. Part of this work will be included in the Commission's 2014 Corporate Governance package. We also monitored the enhanced cooperation procedure between 11 Member States to introduce a **Financial Transaction Tax*** and its impact on pension funds.

* Topics mandated for 2013 by the General Assembly 19-20 November 2012.

Finance Watch

Making finance serve society

2013

OPERATIONAL REPORT

FINANCIAL REPORT

Resources and expenses 1 January 2013 to 31 December 2013

Finance Watch's long-term fundraising strategy is to have stable, sustainable and independent funding from a balance of institutional sources (charitable foundations and public grants), donations from the general public and membership fees. We also aim to build, over the next several years, a financial buffer of four to six months' expenses to ensure continuity of operations.

RESOURCES

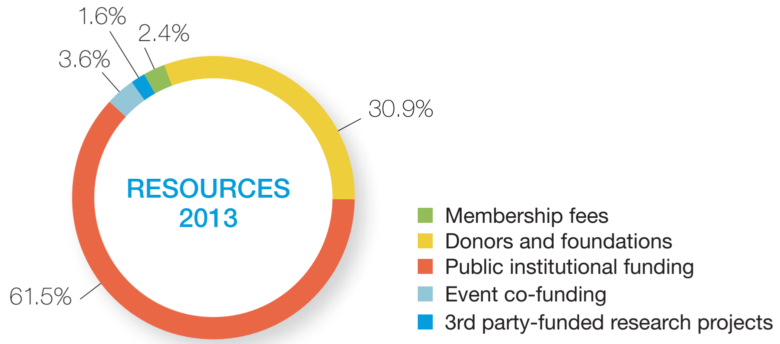
(in Euro)	Audited resources 2013
I. Membership fees	**44,713.11**
II. Donors	**1,753,093.88**
Adessium Foundation	447,409.34
Fondation pour le progrès de l'Homme	50,000.00
Private individual donors (including through website)	34,613.76
Better Markets	54,166.67
EU funding for pilot project	1,166,904.11
III. Event co-funding	**68,565.45**
Confrontations Europe	40,000.00
EIB Institute	2,500.00
Other sources (including conference fees)	26,065.45
IV. 3rd party-funded research projects	**30,833.33**
Hans Böckler Stiftung	22,500.00
Caisse des Dépôts	8,333.33
V. Interest on floating capital	**300.54**
Total	**1,897,506.31**

The EU grant for 2013 was obtained through a tender administered by the European Commission. Finance Watch was awarded a maximum of €1,213,000. As it cannot represent more than 60% of our expenses, this funding should amount, after validation by the Commission on the eligibility of all our expenses, to €1,166,904. An application under a similar tender for a "Preparatory action" has been made for 2014.

Better Markets' donation of €100,000 for the year starting 15 June 2013 has been split pro rata between 2013 and 2014.

Caisse des Dépôts's donation of €50,000 is also split pro rata between 2013 and 2014.

Fundraising work during the year included a search together with Members and other partners for suitable funding opportunities with EU institutions, member states, charitable foundations and sovereign wealth funds. Funding approaches resulting from this search are currently under development.



"If the work of Finance Watch were amplified, it would be a means to democratize and reclaim the economy and policy decisions linked to it."

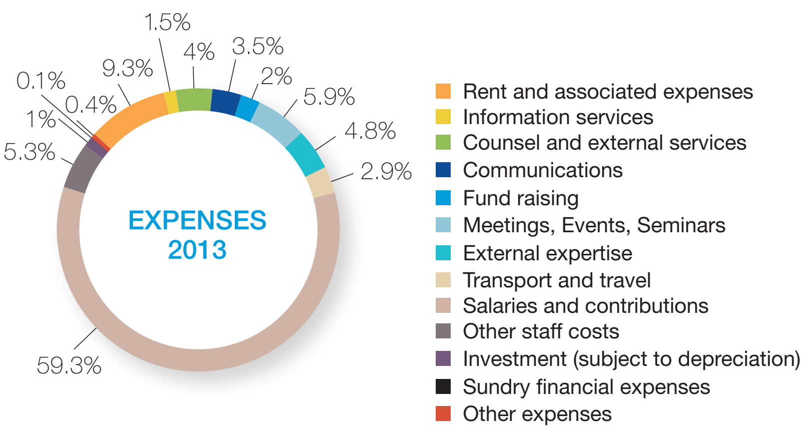
Tony Soranzo, Friend of Finance Watch

EXPENSES

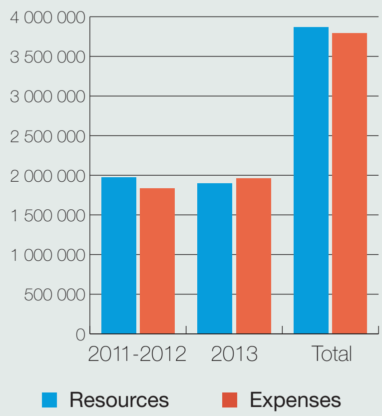
(in Euro)	Audited expenses 2013
I. Rent and associated expenses	182,206.49
II. Information services	29,246.90
III. Counsel and external services (translation, lawyer, accountant, auditor, IT support…)	79,200.80
IV. Communications (agencies, extranet and web upgrade, printing, public relations)	67,957.95
V. Fund raising	38,816.80
VI. Meetings, Events, Seminars	115,924.52
VII. External expertise	93,777.00
VIII. Transport and travel	56,190.24
IX. Salaries and contributions	1,160,276.60
X. Other staff costs (pensions and insurances)	104,691.98
XI. Investment (subject to depreciation)	19,333.81
XII. Sundry financial expenses (bank charges, taxes, VAT)	2,086.97
XIII. Other expenses	8,118.52
Total	**1,957,828.58**

Expenses for 2013 were reduced from the budgeted amount to fit the available resources. Despite this reduction, we achieved the main objectives of the work programme for 2013.

Expenses are incurred to pursue Finance Watch's core mission, with the largest item being staff costs at 64% of the total. This reflects the fact that Finance Watch's main asset is its ability to produce expertise through its staff. There were 12 staff members including one consultant at the end of 2013. Two additional full time employees are planned for 2014.



Summary of resources/ expenses since the creation of Finance Watch



PUBLIC AFFAIRS

Summary of meetings

The public affairs team attended 194 meetings with policymakers and other stakeholders in 2013, compared with 143 in 2011 and 2012.

1 January 2013 - 31 December 2013	European Parliament and national parliaments	Member state staff in Brussels	European Commission and ESAs	Industry meetings ("incoming lobby")	**Total**
Markets and asset management (MiFID/ MAD, UCITS, LTF, MMF, Shadow banking)	16	13	9	15	**53**
Banking (bank structure, CRD IV, crisis management)	25	14	17	10	**66**
Retail (PRIPs, IMD)	15	5	1	7	**28**
General topics (campaign, non-legislative issues)	23	6	6	12	**47**
Total	**79**	**38**	**33**	**44**	**194**

Note: The table above includes formal meetings between Finance Watch staff and policymakers or financial industry representatives. It does not include informal exchanges and ad-hoc encounters, or meetings between Finance Watch staff and Finance Watch Members, non-Member NGOs and student groups.

Summary of interventions

Finance Watch staff participated as speakers in 85 conferences, debates, round tables and other external events in 2013, from 20 different cities around Europe and elsewhere, including Alpbach, Berlin, Brussels, Dublin, Hong Kong, London, Paris, Vienna, Vilnius and Warsaw.

In total, the team received 130 speaking invitations, of which it was able to accept around two thirds. Team members also participated as delegates in numerous other events.

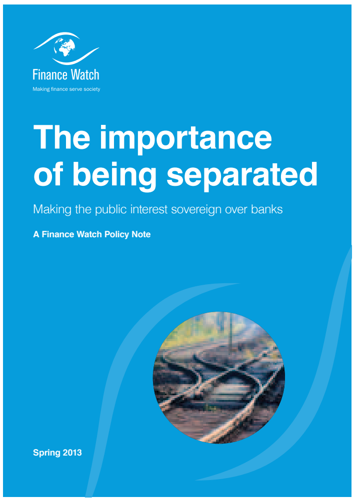
Speaking invitations	Accepted	% accepted
130	85	65

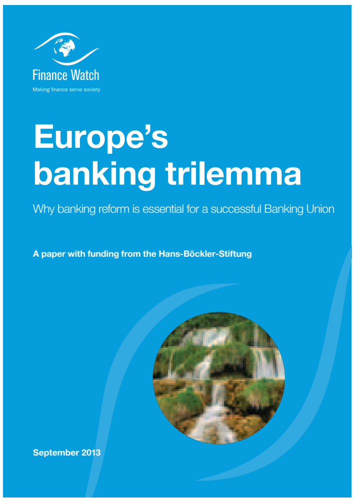
Finance Watch conference 'Five years on - What next for the financial reform agenda?', Brussels, 7 November 2013

OPERATIONAL REPORT

POLICY ANALYSIS

Finance Watch made 22 technical interventions in 2013, including six consultations, nine hearings in parliaments and seven other reports and papers.





13 November 2013
EPP Group parliament hearing (ELTIFs)

5 September 2013
Position paper "*Europe's banking trilemma*" (Banking Union and bank structure)

31 July 2013
EC consultation on the review of the European System of Financial Supervision

18 July 2013
Hearing in UK House of Lords (Banking Union)

11 July 2013
EC consultation (Bank structure)

26 June 2013
EC consultation (Long-term financing)

13 June 2013
ECON consultation on coherence of EU financial services legislation

12 June 2013
IOSCO consultation (PRIPS)

7 May 2013
Hearing in the German parliament and position paper (CRD IV)

26 April 2013
Annual report 2011 and 2012

23 April 2013
Hearing in the Belgian federal parliament (MiFID II)

22 April 2013
Hearing in the German parliament and position paper (Bank structure)

19 April 2013
Discussion paper (PRIPS)

8 April 2013
Report "*The importance of being separated*" (Bank structure)

18 March 2013
Report on EC Bank Resolution and Recovery Proposal (Banking Union)

8 March 2013
EC consultation (ELTIFs)

13 February 2013
Evidence to UK parliament (Bank structure)

8 February 2013
Hearing in the Belgian federal parliament, special follow-up committee charged with research into the financial crisis

5 February 2013
Hearing in the French parliament (Bank structure)

29 January 2013
Amendments to French bank reform proposals (Bank structure)

29 January 2013
Hearing in the French parliament (Bank structure)

16 January 2013
Hearing in the German parliament and position paper (HFT, MiFID II)

"Finance Watch has provided extremely valuable support to our campaign against food speculation, providing Oxfam and its allies with timely intelligence and valuable strategic advice to inform our advocacy."

Marc-Olivier Herman,
EU Economic Justice Policy Lead,
Oxfam EU Advocacy Office

COMMUNICATIONS

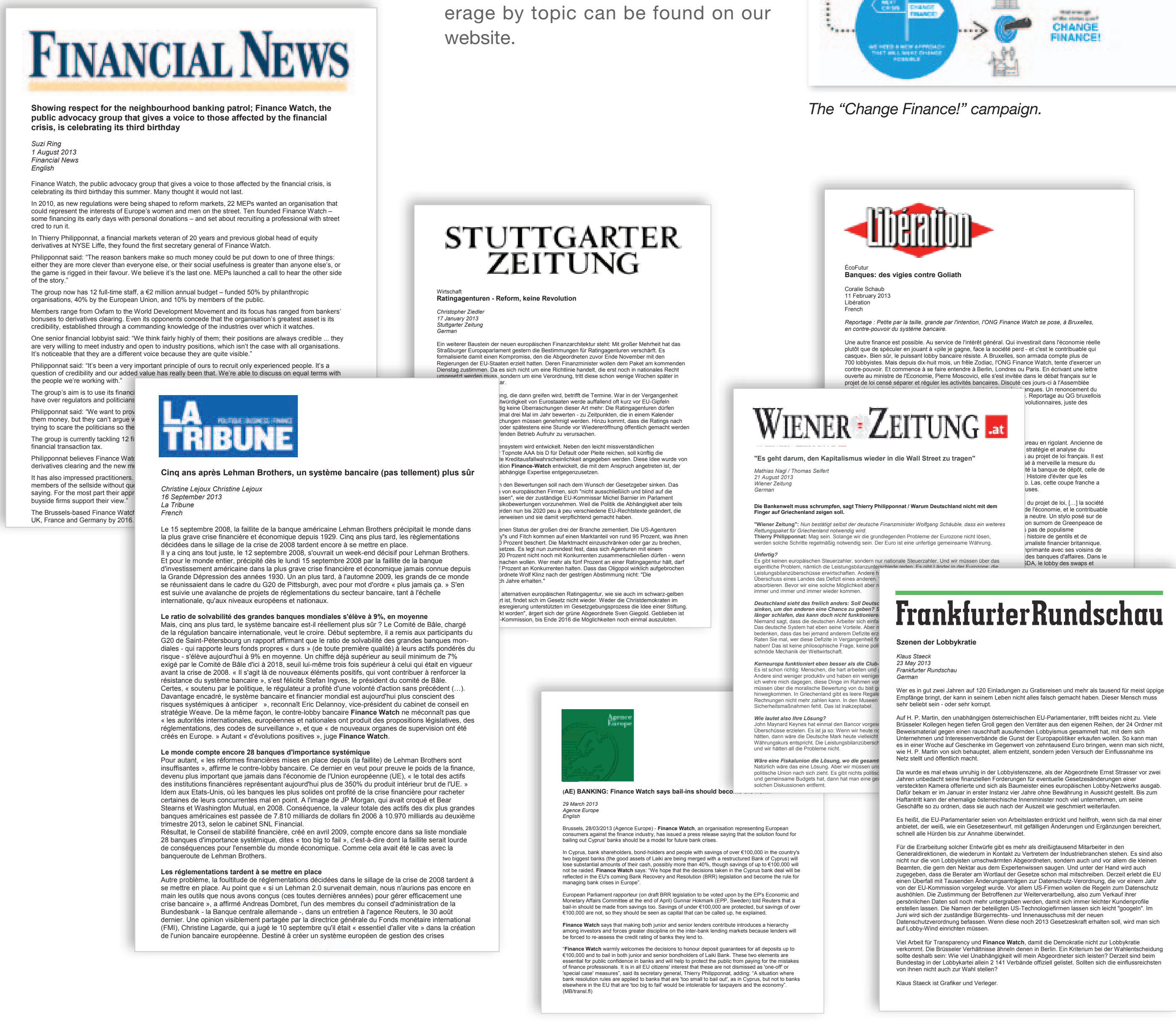
Summary in numbers

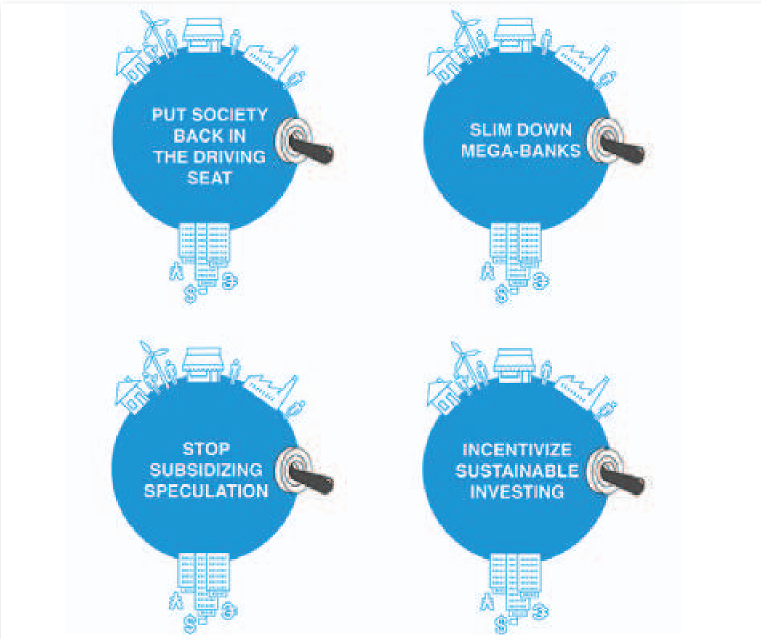
Press releases: 17 (23 in 2012)
Interviews: 128 (120)
Unique articles and broadcasts: 277 (300)
Twitter followers: 3,944 (2,300)
Facebook followers: 11,065 (3,000)
Friends: 7,463 (6,090)

Media coverage

Finance Watch continued to attract strong media interest in 2013, with 277 unique articles and broadcasts from among 204 different media outlets, including financial and mass circulation newspapers, magazines, TV radio and websites in France, Germany, UK, Belgium, Austria, Portugal, Spain and the Netherlands, among other places. The main topics were bank structure and financial lobbying, MiFID (food speculation) and our “Change Finance!” campaign. Details of our media coverage by topic can be found on our website.

The “Change Finance!” campaign.





The "Change Finance!" campaign – four demands to make finance serve society.

Campaign

The "Change Finance!" campaign (see page 14) launched on 15 September 2013, the fifth anniversary of the collapse of Lehman Brothers, with the central message that little has fundamentally changed since the financial crisis. A set of interactive webpages uses graphics to explain why we think this is the case and what can be done about it.

The campaign was promoted by Finance Watch and its members and translated into German, French and Dutch. In its first 50 days, the campaign increased overall site traffic by 30% and time-on-site by 60%. The campaign pages have so far received more than 21,000 visits, with a 6.2% conversion rate.

Finance Watch will continue promoting the campaign in 2014 ahead of the European elections and later in the year to promote a strong financial reform agenda as the new Parliament and College of Commissioners take office.

Public communications

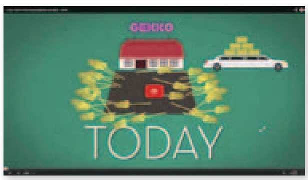
In addition to website and social media updates, there were 10 Friends' Newsletters and 13 blog articles in 2013. This content aims to demystify technical areas of Finance Watch's work or to set in historical context some of the current developments in financial regulation.

The team produced seven online webinars in English and French, each explaining a particular area of financial regulation with simple graphics and a live audio explanation and Q&A session. Following positive feedback, we plan to continue the webinars in 2014 and supplement them with multi-media materials to broaden their reach among the public.

At our April 2013 conference, we launched a short animation in which two children explain how financial regulation could help to fund long term investments for their future.

Joseph de la Vega, from 2 April 2013 blog "Lessons from History I".

Webinar 18 October 2013: "Why current regulation will not avoid a future crisis".



Animation about long term investment.

OPERATIONAL REPORT

EVENTS

Finance Watch organised three external policy events in 2013, including two public conferences and a policy meeting in Parliament. Conference materials including written summaries, audio and video files, presentations and photos were published online after the event.

7 November 2013 – PUBLIC CONFERENCE

"FIVE YEARS ON - WHAT NEXT FOR THE FINANCIAL REFORM AGENDA?"

Around 240 people attended this event, which examined items for the policy agenda in the next Parliament, including bank structure and resolution, derivatives, and financial lobbying. The event was hosted in Brussels with support from the Friedrich Ebert Stiftung and the Hans Böckler Stiftung.

Speakers and moderators

Sheila Bair
Chair, Systemic Risk Council; former FDIC Chair (keynote)

Sharon Bowles
MEP, Chair of the European Parliament's ECON Committee

Alain Deckers
Head of Unit, Banks and Financial Conglomerates II, DG MARKT (keynote)

Jennifer Robertson
Deputy Head of Unit, Financial Market Infrastructure, DG MARKT

Adrian Blundell-Wignall
Special Advisor to the Secretary-General on Financial Markets, OECD (keynote)

Robert Jenkins
Former member of the Bank of England's Financial Policy Committee

Thierry Philipponnat
Secretary General, Finance Watch

John E. Parsons
Senior Lecturer, Sloan School of Management, MIT

Prof. Walter Mattli
Executive Director, Department of Politics and International Relations, Oxford University

Richard Raeburn
Chairman, European Association of Corporate Treasurers

Simon Lewis
CEO, AFME

Robert Kuttner
The American Prospect (moderator)

Dennis Kelleher
President and CEO, Better Markets (moderator)

Peter Spiegel
Financial Times (moderator)

David Shirreff
The Economist (moderator)

Left to right: Robert Kuttner, Sharon Bowles, Robert Jenkins, Walter Mattli, Simon Lewis.

Alain Deckers and Adrian Blundell-Wignall.

23 April 2013 – PUBLIC CONFERENCE

"FUNDING THE REAL ECONOMY TODAY AND TOMORROW"

Around 160 people attended this event in Brussels, which looked at how financial regulation could boost investment in SMEs and help to fund economic and social infrastructure for the future. It was co-hosted with Confrontations Europe. In addition to the keynote speeches, there were panels on the financing of SMEs and on long term investment.

Speakers and moderators

Olivier Guersent
Head of Michel Barnier's Cabinet (keynote)

Philippe Maystadt
Honorary President, European Investment Bank (keynote)

Gérard Rameix
President, Autorité des Marchés Financiers

Jean-Louis Bancel
President, Crédit Cooperatif Group (moderator)

Thierry Philipponnat
Secretary General, Finance Watch

Philippe Herzog
President, Confrontations Europe

Miquel Miro
Director, Fundacio Seira

Gerhard Huemer
Director of Economic Policy, European Association of Craft, Small and Medium-sized Enterprises

Stanislas Dupré
CEO of 2° Investing Initiative

Florian Moritz
Deutscher Gewerkschaftsbund

Anne-Laure Vannier
CFO, Cleanea

Claire Roumet
Secretary General, Housing Europe

M. Nicolas J. Firzli
Managing Director, World Pensions Council

Christine Berry
ShareAction

Prof. Stefano Zambon
University of Ferrara, Chairman of WICI Europe

David Newhouse
Senior Advisor Financial Public Affairs, EDF

Rens van Tilburg
SOMO (moderator)

6 November 2013 – BRIEFING AND Q&A IN PARLIAMENT

"ADDRESSING TOO-BIG-TO-FAIL FINANCIAL INSTITUTIONS: WHAT ARE THE NEXT STEPS? AN EU-US PERSPECTIVE"

The meeting was hosted in Parliament with assistance from MEPs Othmar Karas (EPP, Austria), Ramon Tremosa i Balcells (ALDE, Spain) and Udo Bullmann (S&D, Germany). Around 30 policymakers and other stakeholders attended.

Speakers and moderators

Mario Nava
Director, Financial Institutions, DG MARKT

Gert-Jan Koopman
Deputy Director General, DG Competition

Sheila Bair
Former Chairperson, Federal Deposit Insurance Corporation (FDIC)

Adrian Blundell-Wignall
Deputy Director in the Directorate for Financial and Enterprise Affairs, Special Advisor to the Secretary-General, OECD

Dennis Kelleher
CEO and President, Better Markets

OPERATIONAL REPORT

OBJECTIVES FOR 2014

Finance Watch's 2014 workplan is built around the renewal of the Parliament and the College of Commissioners after the European elections in May 2014. Advocacy work will take account of the legislative transition, while broader communication efforts will focus on influencing the policy agenda for the 2014-2019 Parliament.

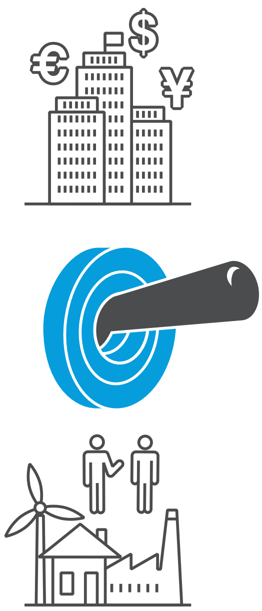
Among specific dossiers, Finance Watch's core lobbying efforts will concentrate on Bank Structure, Long Term Financing and ELTIFs, MiFID Level 2 and PRIPs, and providing ad hoc coverage on Banking Union and bank capital and other Basel Committee on Banking Supervision issues.

We also plan to provide full lobby support on TTIP and Shadow Banking and to respond to consultations on the impact of regulation for end investors and the Review of the European System of Financial Supervision.

The policy analysis team will support the advocacy agenda above and, subject to funding, also work on projects relating to the representation of public interest in banking and the integration of Environmental, Social and Governance criteria and Socially Responsible Investment principles into long-term investment decisions.

The 2014 communications and campaigning plan focusses on the "Change Finance!" campaign, and in particular on a recommendation from that campaign to build a "Citizens' dashboard", which would measure how well the financial sector is meeting the needs of society. We will also produce a series of educational resources for the general public on a range of finance and financial regulation themes.

All of this work depends on public support and funding, and Finance Watch will continue to work on building a sustainable base of followers and donors.



Had enough of the status quo?

CHANGE FINANCE!

"Finance Watch has quickly become an essential and widely respected voice in financial matters affecting all of us. Their work helps to strengthen democratic regulatory governance and financial markets in Europe."

Professor Walter Mattli,
Executive Director, Department of Politics and International Relations, Oxford University

GLOSSARY AND ABBREVIATIONS

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

AMF
Autorité des Marchés Financiers, French financial regulatory agency

AML
Anti-Money Laundering Directive

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

BRRD
Bank Recovery and Resolution Directive

Commission
European Commission, executive body of the EU. Duties include making legislative proposals to the co-legislators, the Council and Parliament

Council
Institution representing member states, co-legislator with the Parliament (see also ECOFIN)

CRD IV
Capital Requirements Directive IV, legislative package to strengthen the regulation of the banking sector

DG MARKT
Commission Directorate General for Internal Market and Services, responsible for financial services regulation

DGS
Deposit Guarantee scheme

EBA
European Banking Authority, one of the three ESAs

ECB
European Central Bank

ECOFIN
Council body comprising the finance ministers of each member state, signs off Council negotiating positions on most financial services matters

ECON
Committee on Economic and Monetary Affairs of the European Parliament

EIB
European Investment Bank

EIOPA
European Insurance and Occupational Pensions Authority, one of the three ESAs

ELTIF
European Long Term Investment Funds

EMIR
European Market Infrastructure Regulation, creates clearing obligations for over-the-counter derivatives, among other things

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

ESAs
European Supervisory Authorities EBA, ESMA and EIOPA, created in 2011 with the European Systemic Risk Board as part of the Commission's European System of Financial Supervisors (ESFS)

ESMA
European Securities and Markets Authority, one of the three ESAs

FDIC
Federal Deposit Insurance Corporation, US government agency that protects depositors against bank failure

FSB
Financial Stability Board, international body created in 2009 to coordinate global financial regulation

FTT
Financial transaction tax

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

HFT
High frequency trading or trader

HLEG
High Level Expert Group on Reforming the Structure of the EU Banking Sector appointed by the Commission and led by Erkki Liikanen, governor of the Bank of Finland

IMD 2
Revision of the EU's Insurance Mediation Directive

IMF
International Monetary Fund

IORP II
The EU's review of the Directive on Institutions for Occupational Retirement Provision, defines rules for occupational pension funds

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

ISDS
Investor State Dispute Settlement, mechanism for allowing companies to bring lawsuits against sovereign states in certain circumstances. Part of TTIP proposal

KID
Key Information Document for packaged retail investment products

Level 2
Technical standards and other delegated acts developed by the Commission and ESAs to facilitate the implementation of EU Regulations and Directives

LTF
Long-term Financing

MAD
Market Abuse Directive

MEP
Member of the European Parliament

MiFID II
Legislative package containing the EU's Review of MiFID, the Markets in Financial Instruments Directive, and the Markets in Financial Instruments Regulation (MiFIR)

MMF
Money Market Fund

NGO
Non-governmental organisation

OECD
Organisation for Economic Co-Operation and Development

Parliament
The 7th European Parliament, serving 2009-2014, and co-legislator with the Council

PRIPs
Packaged Retail Investment Products

S&D
Progressive Alliance of Socialists and Democrats, political group in the European parliament

SIFI
Systemically Important Financial Institution

SME
Small or medium-sized enterprise

Solvency II
EU Directive that codifies and harmonises the EU's insurance regulation

SRM
Single Resolution Mechanism

SSM
Single Supervisory Mechanism

TBTF
Too-big-to-fail, term used to describe SIFIs, usually banks

Trialogue
Informal meetings between the three main EU institutions (Commission, Parliament and Council) often in the final stages of legislation

TTIP
Transatlantic Trade and Investment Partnership

UCITS
Undertakings for Collective Investment in Transferable Securities, set of EU Directives on collective investment schemes

Finance Watch

Making finance serve society

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