

EUROPEAN UNION (EU) – UNITED STATES (U.S.)

FINANCIAL MARKETS REGULATORY DIALOGUE JOINT STATEMENT

BRUSSELS – On July 8, 2014, participants from the United States (U.S.) and the European Union (EU) held a meeting of their Financial Markets Regulatory Dialogue (FMRD). They met to exchange information on regulatory developments as part of their ongoing dialogue, and discuss their shared interests in continuing to implement and enforce robust standards, including those on the G-20 financial regulatory agenda.

EU officials included representatives of the European Commission (EC) and the European Supervisory Authorities (ESAs): the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA), and the European Insurance and Occupational Pensions Authority (EIOPA).

U.S. officials included staff of the U.S. Treasury (Treasury) and independent regulatory agencies, including the Board of Governors of the Federal Reserve System (Federal Reserve), the Commodity Futures Trading Commission (CFTC), the Federal Deposit Insurance Corporation (FDIC), and the Securities and Exchange Commission (SEC).

EU and U.S. officials held productive discussions on their respective reforms, including those reforms implementing key commitments by the G-20 leaders such as the implementation of Basel III capital, leverage, and liquidity rules; the implementation of over-the-counter (OTC) derivatives reforms (including a discussion of related cross-border issues); and the orderly resolution of global banks.

The officials also discussed insurance, money market funds, alternative investment fund managers, securitization, high-frequency trading, accounting, disclosures, audit, benchmarks, corporate governance, and data transfers, and information sharing for supervisory and enforcement purposes. U.S. banking agencies and Treasury commended progress in the EU towards establishing a robust Banking Union and setting up a new resolution framework.

Derivatives

Participants reiterated their intention to take into account each other's regulatory systems and strive to work together in implementation of OTC derivatives reforms. Participants noted recent EU and U.S. efforts to implement OTC derivatives reforms. They noted the entry into force of the Markets in Financial Instruments Directive (MiFID II) in July 2014, and ESMA's recent publication of its consultation and discussion papers as part of the implementation of MiFiD II.

SEC staff also described the SEC's recently finalized rules for security-based swaps that focus on certain cross-border issues. In February 2014, the CFTC implemented mandatory trade execution for certain interest rate and credit default swaps that are subject to the CFTC's clearing mandate.

In line with the *Path Forward* document, EC and CFTC staff intend to continue to discuss the technical aspects of any rule proposals, including possible CFTC rule proposals on regulatory treatment of foreign swap execution facilities (SEFs) and central counterparties.

In order to provide market participants with more certainty and demonstrate the progress made in rolling out the trading, clearing, and reporting reforms, the EC will continue to engage with the CFTC and SEC staffs in order to move forward on determinations of equivalence for U.S. central counterparties and risk mitigation techniques. The SEC staff expressed its intention to work expeditiously toward finalizing the remaining cross-border rules proposals related to OTC derivatives reforms. Participants intend to report on progress on these initiatives at the next FMRD meeting in January 2015.

The staffs affirmed the importance of continued technical discussions during the European Supervisory Authorities' consultation period on risk mitigation techniques (margin) for non-centrally cleared derivatives, which are expected to conclude later this year. The EU and U.S. staffs discussed the need to minimize divergences, to the extent possible, from international margin standards for non-cleared derivatives once implemented, and the need to align on timing.

Market Structure and High Frequency Trading

The EU staff explained the rules in MIFID II, which addressed high-frequency trading (HFT), while the SEC staff outlined a series of initiatives to evaluate and enhance U.S. equity market structure, including those related to HFT issues, that SEC staff was currently undertaking.

Participants agreed to continue cooperation on the regulation of algorithmic trading in order to ensure market integrity and promote market stability.

Resolution

On resolution, participants welcomed the deep cooperation between the EC, EBA, FDIC, and Federal Reserve on technical aspects of resolution. The U.S. banking agencies, Treasury and the EU agreed that the Financial Stability Board should issue proposals for a strong international standard on gone-concern loss-absorbing capacity (GLAC) that is applicable to global systemically important banks for the G-20 Leaders Summit later this year. These proposals should be subject to public comment and a quantitative impact study and a feasibility study, followed by finalization of the standard, including an appropriate minimum requirement. Participants look forward to continued cooperation on devising solutions to challenges in cross-border resolution, such as the recognition or support of resolution actions. They committed to exchange views on the GLAC proposals and assess progress on cross-border recognition issues at the next FMRD meeting in January 2015.

Insurance

Participants decided to continue the necessary work towards a covered agreement on reinsurance collateral and engage all stakeholders in a transparent manner. They committed to discuss next steps to be reflected in the EU-U.S. Insurance Dialogue Project as early as July 2014 and to report on initial steps made at the next FMRD in January 2015.

Auditing

Participants commended the concrete steps made on cross-border cooperation and committed to continue work to further develop a stable framework for cooperation on audit oversight, acknowledging the benefits to investors on U.S. and EU markets.

Accounting

On accounting, participants reiterated their commitment to convergence on high quality accounting standards. They welcomed the completion of the International Accounting Standards Board's (IASB's) and U.S. Financial Accounting Standards Board's (FASB's) joint project on revenue recognition. Participants encouraged continued work to complete the remaining key outstanding convergence projects, while also recognizing the need to adopt high quality standards in a timely manner. Participants committed to continue their efforts to ensure consistent application of high quality accounting standards.

Banking

Participants committed to continue cooperation on prudential standards implementation for internationally active banks and to strive for effective implementation of Basel III standards on capital, leverage, and liquidity.

Benchmarks

Participants discussed the ongoing international review of benchmarks and the draft legislation currently under negotiation in the EU. Participants reiterated their support for the recently agreed July 2013 final report on IOSCO principles for administrators of interest rate, foreign exchange and other financial benchmarks, and are committed to fight market abuse, including benchmark manipulation. Both sides committed to discuss benchmarks at the next FMRD meeting in January 2015.

Next meeting

The next FMRD is to take place in Washington, DC in January 2015.