• Thank you for the opportunity to discuss the Commission's ongoing work on **third-country equivalence of regulatory regimes**. This is a most timely discussion considering the publication on 27 February of a staff working document assessing our approach so far. I understand there was a good first discussion on this subject with Vice President Dombrovskis last week. So I look forward to your questions later this morning.

• First, a reminder. What is equivalence about? Third-country regimes have always been an important part of EU financial services legislation and the approach has evolved over time. In all legislation passed since the global financial crisis, we have asked ourselves whether third-country provisions were required. Wherever the answer to that question was positive, we worked together with the European Parliament and the Member States to develop appropriate rules for the legislation concerned.

• Financial markets are not just EU markets. They are global. It is therefore appropriate to consider how to treat foreign operators and the action with foreign standards as developed with EU input in the G20 and relevant bodies. Third-country provisions, wherever the Commission chooses to apply them, are a useful tool to help make sure that international standards are effectively applied outside the EU too.

• EU equivalence pursues **prudential objectives**. We want to avoid importing undue risk into our financial system. We want to avoid opportunities for regulatory arbitrage or even outright circumvention.
Whoever does not play by the rules may, **through cross-border activities**, create additional risks to EU financial stability. In specific situations, equivalence can help us deal with unnecessary and detrimental extraterritorial effects due to the way foreign rules are designed to deliver a specific regulatory outcome.

- Equivalence is based on an assessment of the relevant regulatory and supervisory system in a non-EU country. As a process, it seeks, in particular, to determine whether the rules of this non-EU country achieve the same regulatory or supervisory outcomes as EU rules. If equivalence is granted, it allows reliance on the rules and supervision of a foreign jurisdiction in a specific field without giving rise to risks for financial stability, market conduct or other risks for the EU.

- In general, in the EU, our third-country equivalence regimes have different features in terms of:
  - the purpose of the rules,
  - the parameters underlying the equivalence assessment,
  - technical input by the ESAs,
  - decision-making process involved,
  .... to name a few.

- The main reason why we do not have one instrument to deal with all kinds of equivalence regimes is that the approach has been developed in line with the specific regulatory objective of the legislation concerned. To put it differently, we do not have one single piece of legislation dealing with EU financial services. Therefore, so far, it has made sense to deal with equivalence **on a case-by-case basis**. I realise there are different views about this within this very Committee. Our staff working document has shown that this level of flexibility has helped our equivalence regime prove
its worth. To illustrate this point, let me compare two sets of equivalence requirements. I think you will agree with me that checking the robustness of the country-by-country reporting regime for extractive and logging industries used by a third-country must necessarily be based on different grounds and follow different procedures than a verification of the prudential basis for equivalence of credit rating agencies.

- Just over two years ago, my predecessor had a similar discussion with this Committee. He recalled then the importance of proportionality. We cannot use the same yardstick to evaluate the risks of granting equivalence to low-impact and high-impact jurisdictions. The former are jurisdictions with a small international footprint and limited interconnectedness with our markets. The latter warrant a more careful assessment, precisely because of the high level of nexus with the EU financial sector.

- From initial public reactions to our staff working document, it would seem that proportionality is a new feature of the EU's approach to third-country equivalence of financial regulatory regimes. But that is not so.

- Let me explain what we sought to achieve through the Staff Working Document. It is essentially, a factual overview of the equivalence process with non-EU countries in EU financial services legislation.

- It is a stocktaking exercise that shows how equivalence with countries outside the EU in financial regulation is effective in protecting financial stability and market integrity in the EU while facilitating the further development of integrated financial markets.

- The report highlights that continuous work is necessary to enhance the overall equivalence framework and make it more effective. It makes the case for further developing the current proportionality- and risk-based approaches to equivalence assessments. It also suggests that the role of
European Supervisory Agencies may need to be clearer both in terms of assessing the regulatory and supervisory framework of foreign jurisdictions and in participating in ongoing monitoring and enforcement once a positive equivalence determination is granted by the Commission. In short, the staff working document does not present any new policy proposals. It seeks instead to clarify what the Commission may or may not do in equivalence decision-making. From our experience, issues like proportionality and risk-based decision-making were not fully understood by market participants. We hope that, going forward, the Staff Working Document will have served its purpose and improved understanding.

- I'd also like to address upfront the issue of timing. We have been analysing equivalence regimes for some time. Our intention was initially to publish this report as part of last year’s Call for Evidence – which was a broad stock-taking of EU financial regulation. The analysis on our third-country regimes required more time and must be read in conjunction with our broader work on the effectiveness of the EU’s post-crisis legislation.

- We have some work ahead of us. Different legislative reviews will be on stream as of this year and we may propose to revisit third-country approaches where appropriate based on what we have learned during the equivalence stock-taking that led to the staff working document. This is one of the approaches we have pursued in the call for evidence.

- Of course, separately from Commission follow-up, we very much welcome Parliament's own views going forward.