Ladies and Gentlemen,

I am delighted to be here to introduce this Financial Services Conference in Shanghai. It is a particular pleasure to be here in China to share with you my views on the European financial markets.

China is chairing the G20 this year and we are keen to work with Chinese authorities to make the global financial system safer, more efficient and more integrated.

Growth in the EU is forecast to continue its moderate recovery in 2017, supported by a number of positive factors such as low oil prices, a relatively low euro exchange rate, favourable financing costs and supportive fiscal policy. Private consumption is expected to remain the main driver of growth.

At the same time, the European economy is facing stronger headwinds from the ongoing slowdown in many emerging economies. Risks from the global economy have risen significantly over the winter.

The global recovery has weakened further amid increasing financial turbulence and falling asset prices. Adding to the headwinds are concerns about the global impact of China's transition to more balanced growth, along with signs of distress in other large emerging markets, including from falling commodity prices. Risks in advanced economies, including Europe have increased as well. Important that the G20 here in Shanghai give a clear message of cohesive and readiness to put in place a strong response should these risks materialise.
• The financial sector has a strong role in the global recovery, through credit support, and boosting potential growth, through a better allocation of resources.

• A well-functioning financial sector is essential for a strong European Economic and Monetary Union through risk-sharing and the reallocation of capital.

• The European banking sector showed important structural weaknesses before the crisis (including excessive leverage, overbanking). However, important progress has been made in the past years to put in on a sound footing.

• The situation of the banking sector now is very different from what it was in 2012. EU financial institutions have significantly strengthened their capital positions and passed the stress test organised by the European Central Bank. In addition, the quality of the banks’ capital, funding structures, and leverage ratios have also substantially improved.

• Last November, the European Banking Authority published detailed information on over a hundred banks from twenty-one countries. The results confirmed that Europe’s banks are increasingly resilient. They also helped shine a light on issues we still need to tackle, such as the non-performing loans that weigh on some parts of our banking sector. This greater transparency is a central part of our response to the financial crisis.

• The G20 has made significant progress on global financial regulatory reform since 2008. However, it is not "mission accomplished".

• For example, the implementation of over-the-counter (OTC) derivatives reforms is underway, but continues to be patchy and lags behind the schedule. We should aim at finalising this work.

• In 2016 work should continue to promote central counterparty resilience, recovery planning and resolvability. We should support the work by the
Financial Stability Board to consider the need for additional financial resources and tools to allow orderly resolution.

- We should ensure that we are consistent in the way we implement reforms; consistency should encourage us to defer to each other and to avoid extraterritorial rules.

- While much has already been achieved, there is still further progress to be made to ensure a resilient market based financing and this can only be achieved by enhancing a proper monitoring of the inherent risks in this area and – if needed and warranted – establishing appropriate policy tools to address them. In 2016 we should continue and in some areas even step up our efforts in this respect.

- We are monitoring the effects of reforms on the financial system and on the economy.

- Today, I would like to tell you how we are getting on with our work to build:
  
  - a **European Banking Union** ensuring safer financial markets and breaking the links between banks and sovereigns;
  
  - a **Capital Markets Union** deepening financial markets and building a single market for capital.

**A safer financial system for the EU: Banking Union**

- It is easy today to take for granted what has been achieved. Banking Union has been part of a radical overhaul of Europe's regulatory and supervisory framework notably for banks, and played an important role in making our system more secure. It is the most advanced sharing of sovereignty since the launch of the euro.
• In June 2012, only 3 years ago, the Heads of State and Government of the EU agreed to create a Banking Union. Today, the two main pillars of the Banking Union - single supervision and resolution - are in place. We have established the first pillar, a Single Supervisor, and the second pillar, a Single Resolution Authority.

• Now we need to complete Banking Union with finalising the second pillar and putting in place the third pillar, a single deposit insurance scheme (EDIS). The European Commission has made proposals on this in November.

• In a currency union, deposits should have the same level of protection, irrespective of where the bank account is located. It would be a crucial and significant step forward to further break the link between banks and sovereigns in the Banking Union.

• The Banking Union countries are progressing on their discussions to come to an agreement on the design of a European Deposit Guarantee Scheme based on the text proposed by the European Commission.

• Risk sharing and risk mitigation have to go hand in hand. Alongside EDIS, we are driving forward a whole range of measures to continue reducing risks. However, while there is still some unfinished business notably at the Basel Committee, we want to aim for a period of greater regulatory stability ahead. Businesses need that certainty to be able to plan and invest.

**Capital Markets Union; the new frontier**

• The European Commission in early 2015 launched the Capital Markets Union (CMU) initiative with a view of establishing an integrated capital
market in the European Union by 2019. To achieve this ambitious goal, we have adopted a dedicated Action Plan.

- [Its aim is to link savings with growth. To increase the flow of capital across borders to projects and businesses that need financing. And to improve the funding conveyor belt so that companies of all sizes can get the investment they need to grow and sell into bigger markets. For consumers, we also want to provide more options to those who want put money aside for the long term.]

- The CMU is a structural reform programme to develop capital market-based finance for new investments, growth and jobs. We want to increase equity finance options for companies, facilitate cross-border investments and remove legal and administrative barriers to capital flows making investment in Europe easier for international investors.

- The Commission is now in the process of implementing our roadmap for building the CMU. Several steps have already been taken since the adoption of the Action Plan:

1) We presented a proposal to create a new regulatory framework to promote markets for simple, transparent and standardised securitisations.

[To free up bank lending in the wider economy we’ve made a proposal to revive Europe’s securitisation markets. Our proposal sets out criteria for simple, transparent and standardised securitisation, with reduced bank capital requirements for securitisations that qualify. This is not going back to the bad old days, but a cautious approach based on advice from the ECB and Bank of England. As Mario Draghi put it in the European Parliament mid-February, this is a strong proposal that would revive the securitisation market while maintaining high prudential standards. And as he also said, it]
is worth remembering that the default rate on securitised products was actually extremely low in Europe.]

2) The European Commission made a proposal to streamline Prospectuses which we estimate should save listed companies up to 100 million Euros a year.

[This has the potential to greatly simplify corporate capital-raising. To make it easier for companies of all sizes to tap public markets we are overhauling the Prospectus directive to create a simpler, faster and cheaper prospectus regime. We want to streamline the process for companies which have already issued a prospectus and want to raise capital again: that’s currently about 70% of all prospectuses. Once businesses have made key information available, they should not need to provide the whole lot all over again.]

3) The Commission also made a proposal to correct the currently too conservative capital calibration for insurance sector exposures to infrastructure projects. This should encourage insurers to invest more in long-term infrastructure projects.

During 2016, the Commission will take further action:

1. Building a more efficient EU venture capital industry. The aim is to increase venture capital finance in the EU and make the venture capital asset class more attractive to private investors.

2. Setting in motion the work to evaluate the case for EU level action to support the emergence of efficient markets for voluntary personal pensions.

3. Work on removing barriers to cross-border investment including in difficult areas such as clearing and settlement, withholding tax and insolvency.
4. We will continue the close cooperation with Member States and supervisors to intensify supervisory convergence.

Conclusion

To conclude, we are very conscious of the importance of safe, efficient and integrated financial markets. We need a business environment that ensures financial stability and the financing of the economies. An environment where capital markets are a financing option for many more companies than they are today. Alongside the banking channel, we should strengthen the funding capacities for corporates and in particular SMEs.

I sense a great deal of support for these objectives and for this approach in Europe but also abroad like here in China as it will also offer greater opportunities for non-EU companies. The momentum is there and we want to take the single market further to support businesses and investments. This is consistent with the work that is being done in the G20 on which we hope to make further progress here in Shanghai.