ANNUAL REPORT 2015

Finance Watch

Making finance serve society

CONTENTS

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 IN BRIEF

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

MAKING FINANCE SERVE SOCIETY

- We advocate public interest outcomes in European financial regulation
- We build the capacity of civil society to act as a counterweight to the financial lobby

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

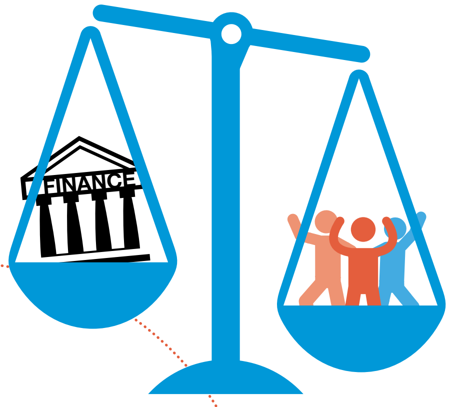
Finance Watch was established as a counterweight to the private interest lobbying of the financial industry. Our mission is to speak on behalf of citizens and the public interest in the area of financial reform and regulation (public interest advocacy), and to provide expertise and support for other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

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

We advocate a financial system that allocates capital to productive use through fair and open markets, in a transparent and sustainable manner without exploiting or endangering society at large.

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

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



Our goal

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

LETTER FROM THE CHAIR

Kurt Eliasson became Chair of Finance Watch in November 2014. He is the Chairman of Housing Nordic (NBO) and CEO of SABO Sweden and has served as a Board Member of Finance Watch, representing Housing Europe, since November 2013.

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

We have a new Secretary General, Christophe Nijdam, who has started up and is doing well in tougher EU political and funding environments. I am very satisfied with the working processes between him and the board members, and with our two new external directors, Marc Roche and Eric De Keuleneer.

We welcomed three new members to the Committee of Transparency and Independence: Jérôme Cazes (chair of the CTI), Robin Jarvis and Marie-Jeanne Pasquette. I would like to thank the outgoing CTI members, Michael Wiehen and Will Dinan, who were with us since the start and have done a good job.

Finance Watch's vision is to create a sustainable financial system that is founded on investing not betting, and that improves citizens' lives. If this resonates with philanthropists and charitable foundations, it is because the financial system is the base for so much of what we need to improve in society.

In 2016, our goals include strengthening the funding situation of Finance Watch in the short term and the long term, and working with our staff, members, board and other stakeholders to replace our current strategic plan, now in its final year, with an inspiring new plan for 2017-2019.

With kind regards
Kurt Eliasson, Chair
On behalf of the Board of Directors

INTERVIEW WITH THE SECRETARY GENERAL

Christophe Nijdam became Secretary General of Finance Watch in January 2015. He was previously an independent banking analyst and banker with more than 30 years' experience.

IT'S BEEN A YEAR SINCE YOU TOOK OVER AS SECRETARY GENERAL. WHAT HAS MOST STRUCK YOU ABOUT THE NGO WORLD?

There is more passion and conviction in the NGO world than in the corporate world where I worked before. It has been a unique experience adapting to the rich and diverse communities that we work with at Finance Watch.

WHAT DOES 2016 HOLD FOR FINANCE WATCH?

Our detailed objectives are listed at the end of this report but our main challenges this year are fundraising, where the environment has become noticeably tougher than it was, and making a new Strategic Plan, which I look forward to doing with the close involvement of our membership.

ARE MEMORIES OF THE FINANCIAL CRISIS FADING?

Eight years after the crisis the dust is finally settling and we can see that the financial system has not changed so much - at a fundamental level. Memories of the crisis are fading, although there have been a few recent upsets in the financial markets, and the political will for reform is low.

HOW DOES THIS AFFECT THE OUTLOOK FOR FINANCIAL REFORM?

Regulators take their lead from the politicians, who are not always aware of the risks in the financial system until it is too late. We've noticed that since late 2014 the high level narrative among EU policymakers has changed. After the crisis it was "financial stability is a pre-requisite for economic growth and job creation". Now it has shifted to "growth and jobs are a pre-requisite to financial stability". Putting the same words in a different order creates a flabbergasting new spin that few people have noticed in the 'Brussels Bubble'. You can see it in the Capital Markets Union project, where the emphasis has moved from "let's regulate shadow banking" to "let's promote shadow banking".

We have to remember that the global financial crisis followed massive financial de-regulation in the late 1990s and early 2000s. There is no room for error this time; a financial crisis now would be an economic disaster and would feed political extremism at a dangerous time in the EU's history.

WHY HAS FINANCE WATCH FOCUSSED SO MUCH ON CAPITAL MARKETS UNION?

It is the landmark reform of the new Commission. We support the initiatives in CMU that will help capital markets and banks to focus on financing the real economy, for example by improving access to equity funding. However, the way that CMU currently promotes some pre-crisis activities is concerning. For instance, the current framework on "simple, transparent and standardised securitisation" does not integrate the lessons from the crisis on tranching, skin in the game, synthetics, and maturity transformation on asset-backed commercial paper. This is worrisome.

WHAT CAN MEMBERS OF THE PUBLIC DO TO SUPPORT FINANCE WATCH'S MISSION?

Simply talking about why Finance Watch is needed and why you support us is a great start. You can also subscribe to our Friends' email newsletter, follow us on Twitter and Facebook, use the educational tools on our website, and last but not least, join the growing number of individual donors who help to fund our non-profit association. Without sustainable funding, we won't be able to speak up for civil society in the foreseeable future.

FINANCE WATCH : A CIVIL SOCIETY ORGANISATION

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

WORKING TOGETHER TO INCREASE CIVIL SOCIETY'S IMPACT

Finance Watch's network is at the centre of our work. Our Members, including organisations and expert individuals, approve a list of topics for Finance Watch to work on and then meet in Working Groups to coordinate their responses to the financial policy and regulation issues affecting them. The Finance Watch secretariat supports this capacity-building activity by organising the Working Groups, providing technical analyses, communications and advocacy.

Working together in this way helps us to amplify the voice of civil society, which can otherwise be drowned out by the intense lobbying of vested interests from within the financial industry.

> *"Finance Watch provides useful analysis, it allows us to listen to a different voice, to see from a different angle."*
>
> **Sylvie Goulard MEP (ALDE, France)**

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

OUR DAY-TO-DAY WORK

The secretariat's policy analysis team writes policy papers and consultation responses on regulatory files and other financial topics that have a strong public interest dimension, and shares this expertise with Members. Our publications are freely available on our website and the key ideas written up in non-technical language, including separate "jargon-buster" publications.

> *"The public interest of finance often snows under in dazzling technical complexities and intense lobbying for the large financial interests of firms. Finance Watch uncovers it and puts it at the forefront, where it belongs."*
>
> **Werner Bijkerk, Head of the Research Department, IOSCO General Secretariat**

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

HISTORY OF FINANCE WATCH

The regulatory activity that followed the global financial crisis led to a surge in private interest lobbying from the financial industry. MEPs feared that this could lead to undemocratic outcomes and in 2010 called for a "finance watch" to be created as a citizens' counterweight to the financial industry lobby. The independent civil society group Finance Watch was created the following year to conduct public interest advocacy in financial regulation.

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

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

CAN I BECOME A MEMBER?

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

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

As a Member, you can:

› work with other civil society representatives to increase your impact
› share expertise and coordinate campaigning actions in dedicated Working Groups
› call on the technical and EU lobbying expertise of the Finance Watch secretariat
› receive detailed weekly updates on policy and legislation
› attend Finance Watch events around Europe
› participate in Finance Watch's governance and strategic direction
› network with other civil society organisations at our meetings and workshops.

Members, staff and speakers networking after Finance Watch's 4 February 2015 conference in Brussels

2008

Global financial crisis, Lehman Brothers collapses

2009

G20 leaders agree post-crisis financial reform agenda
EU begins extensive programme of regulation and re-regulation
Financial industry lobby increases

2010

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

2011

28 April - Finance Watch AISBL registered in Belgium as an association internationale sans but lucratif (international non-profit association)
30 June - founding Members (including our current Secretary General, Christophe Nijdam) hold their first General Assembly in Brussels, elect the board and appoint Thierry Philipponnat as Secretary General
September – secretariat is hired and Finance Watch becomes operational

2012

Membership expands to 42 organisations and 28 individuals.
Major files: CRD IV and MiFID II

2013

5th anniversary of Lehman Brothers' collapse, FW launches *Change Finance!* campaign.
Major files: MiFID II, Bank Structure Reform, Banking Union, PRIIPs

2014

European Parliament elections and renewal of the European Commission
Major files: Bank structure reform, Banking Union, TTIP, PRIIPs, MiFID II

2015

1 January - Christophe Nijdam (one of our founding members) takes over as Secretary General

Major files: Capital Markets Union, Bank structure reform, MiFID II

WHO'S WHO

The people behind Finance Watch

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

A full description of our governance arrangements can be found in the "About us" section of our website.

LIST OF MEMBERS
AS AT 31 MARCH 2016

ORGANISATIONS

BELGIUM
› Centre national de coopération au développement (CNCD-11.11.11)
› Centrale Nationale des Employés (CNE)
› Réseau Financité

DENMARK
› Danish Confederation of Trade Unions

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

FRANCE
› Attac France
› CCFD-Terre Solidaire
› Centre des Jeunes Dirigeants (CJD) (joined 2016)
› Collectif Roosevelt (joined 2015)
› 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)
› Institut Veblen pour les réformes économiques
› Secours Catholique-réseau mondial Caritas
› UNSA Banques et Assurances

GERMANY
› Deutscher Gewerkschaftsbund (DGB)
› Foodwatch
› Heinrich Böll Stiftung
› SÜDWIND e.V. – Institut für Ökonomie und Ökumene (joined 2015)
› ver.di (Vereinte Dienstleistungsgewerkschaft)
› VZBV (Verbraucherzentrale Bundesverband)
› Weltwirtschaft Ökologie & Entwicklung (WEED)

ITALY
› Federazione Autonoma Bancari Italiani (F.A.B.I.) (joined 2015)
› First-Cisl - Federazione Italiana Reti dei Servizi del Terziario (joined 2016)
› Fisac CGIL (joined 2016)
› Fondazione Culturale Responsabilita Etica
› Movimento Difesa del Cittadino (MDC) (joined 2015)

NORWAY
› Norwegian Confederation of Trade Unions

SPAIN
› Fundacio Seira

SWEDEN
› Nordic Financial Unions (NFU)

SWITZERLAND
› Observatoire de la Finance

THE NETHERLANDS
› Consumentenbond (joined 2016)
› Stichting Onderzoek Multinationale Ondernemingen (SOMO)

UNITED KINGDOM
› Global Justice Now (formerly World Development Movement)
› New Economics Foundation (NEF)
› Positive Money
› ShareAction
› TUC/Unite

EXPERT INDIVIDUALS

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

FRANCE
› **Christian Chavagneux**, Economist and journalist. Deputy-editor of "Alternatives économiques"
› **Gregori Colin**, Chief Economist at G-CEC
› **Rainer Geiger**, Retired Officer of the Cooperation Bonn Germany at OECD Paris
› **Patrick Kleinknecht**, Engineer at the French Ministry of Defense
› **Pierre Lichterowicz**, Securities services and project manager
› **François-Marie Monnet**, Independent Family Wealth Surveillance
› **Dominique Perrut**, Researcher for financial economy at the University of Angers
› **Laurence Scialom**, Professor of Economics at the University Nanterre La Défense (Paris)
› **Stéphanie Serve**, Associate Professor of Finance, University of Cergy-Pontoise
› **Claude Simon**, Retired professor and certified public accountant

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

GREECE
› **Emmanouil Tzouvelekas**, PhD researcher for social finance and monetary innovation at Panteion University (joined 2016)

POLAND
› **Maria Aluchna**, Associate Professor of Management Theory, Warsaw School of Economics (joined 2015)
› **Marta Götz**, Associate Professor at Vistula University (Warsaw), Department Business and International Relations (joined 2016)
› **Krzysztof Grabowski**, Corporate Governance Advisor at the Conference of Financial Companies in Poland, Member of the Academic Society of the Allerhand Institute (joined 2015)

SWITZERLAND
› **Bärbel Bohr**, Lecturer, Hochschule für Technik Rapperswil
› **Marc Chesney**, Professor of Finance, Swiss Banking Institute, University of Zurich. Author
› **Michel Santi**, Economist and financial markets specialist

UK
› **Stephany Griffith-Jones**, Research Associate Overseas Development Institute. Financial Markets Director, Initiative for Policy Dialogue, Columbia University (New York). Author
› **Thomas Lines**, Associate Lecturer, Goldsmiths, University of London, and Independent consultant

BOARD OF DIRECTORS
AS AT 31 DECEMBER 2015

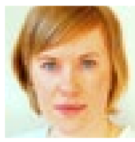
KURT ELIASSON (SWEDISH), *CHAIR*
Chairman of Housing Nordic (NBO) and CEO of SABO Sweden, representing FW Member organisation Housing Europe.

MARC ROCHE (BELGIAN)
Author, financial journalist, former London correspondent for Le Monde. Independent board director (joined the Board in September 2015)

ANNE FILY (FRENCH)
BEUC Special Advisor, representing FW Member organisation European Consumers' Organisation (BEUC)

FRANÇOIS-MARIE MONNET (FRENCH)
Independent advisor to family wealth offices, associate of l'Observatoire de la Finance, former investment banker and journalist, representing FW individual members

JACQUES TERRAY (FRENCH)
Vice-chair of TI France and former member of TI International Board of Directors, representing FW Member organisation Transparency International EU Office

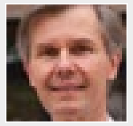


HANNA SJÖLUND (SWEDISH)
UNI Europa Policy Advisor to the Regional Secretary, representing FW Member organisation UNI Europa

PROFESSOR DR. RAINER LENZ (GERMAN), TREASURER
Professor of finance at the University of Applied Sciences in Bielefeld, former investment banker and Economic Advisor at the Namibian Ministry of Finance, representing FW individual members

PROFESSOR ERIC DE KEULENEER (BELGIAN), VICE CHAIR
Professor of economic regulation and banking at the Solvay School of the Université Libre de Bruxelles, former corporate and investment banker. Independent board director (joined the Board in September 2015)

COMMITTEE OF TRANSPARENCY AND INDEPENDENCE
AS AT 31 DECEMBER 2015



JÉRÔME CAZES (FRENCH)
CHAIR
Chair of MyCercle, an online company information platform, former CEO of Coface, the credit insurer and French export credit guarantee provider, former member of the executive committee of Natixis (elected by General Assembly on 8 April 2015)

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

MARIE-JEANNE PASQUETTE (FRENCH)
Lecturer in journalism in economics and finance at Pantheon-Sorbonne University, chair of Sphere Finance Publications, editor of minoritaires.com, former financial journalist, member of Institut Français des Administrateurs (IFA) (elected by General Assembly on 18 November 2015)

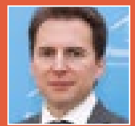
STAFF AS AT 31 DECEMBER 2015

CHRISTOPHE NIJDAM, SECRETARY GENERAL
French, former corporate and investment banker and financial analyst • Responsible for the strategy, operations and output of the Secretariat • Member of the Stakeholder Group of the European Banking Authority (EBA, since February 2016)

JOOST MULDER, HEAD OF PUBLIC AFFAIRS
Dutch, former financial industry lobbyist. Advocacy on securities markets and retail issues

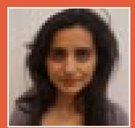
KATARZYNA HANULA-BOBBITT, SENIOR PUBLIC AFFAIRS OFFICER
Polish, former financial supervisor. Advocacy on banking issues and capital markets

JESSICA PORCELLI, PUBLIC AFFAIRS TRAINEE (FROM SEPTEMBER 2015)
Italian, previous roles at the European Parliament and New York State Assembly • Advocacy on retail and institutional issues

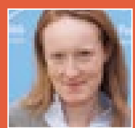


BENOÎT LALLEMAND, HEAD OF STRATEGIC DEVELOPMENT AND OPERATIONS
Belgian, former clearing and settlement banker • Fundraising, strategy, EU advisor to Better Markets

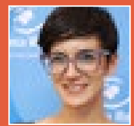
FRÉDÉRIC HACHE, HEAD OF POLICY ANALYSIS
French, former bank trader • Manages the policy analysis team, specialises in financial markets, investor protection and banks



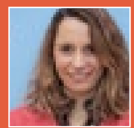
RIM BEN DHAOU, SENIOR POLICY ANALYST (FROM APRIL 2015)
French, former actuary, quantitative analyst and portfolio manager



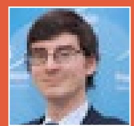
CHARLOTTE GEIGER, COMMUNICATIONS OFFICER
German, PR and social media expert • Communications to the general public



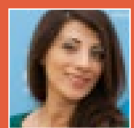
ALINE FARES, HEAD OF MEMBERSHIP, OUTREACH AND EXPERTISE COORDINATION
French, former banker
Coordinates work with Members, civil society and academic outreach



GIULIA PORINO, MEMBERSHIP, OUTREACH AND EXPERTISE COORDINATION OFFICER
Italian, former microfinance environmental risk researcher
Membership coordination and outreach



ADRIAAN BAYER, FINANCIAL OFFICER
Dutch, former investment fund analyst • Finance and operations



AYDA KAPLAN, OFFICE MANAGER (FROM SEPTEMBER 2015)
Belgian, academic researcher
Office administration, executive assistant to Secretary General

The team was also supported in 2015 by external consultants Alexander Kloeck, Duncan Lindo, Greg Ford and Christian M. Stiefmüller (who joined the staff as a Senior Policy Analyst from January 2016), and interns Alvaro Oleart and Saida Blok.

HIGHLIGHTS OF 2015

PUBLIC AFFAIRS

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

POLICY ANALYSIS

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

COMMUNICATIONS

Finance Watch published 13 press releases and featured in 226 items of press coverage from around Europe. We published 27 blog articles on topics including fossil fuel divestment, crowdfunding, microcredits, liquidity, bank structure reform, Better Regulation and Capital Markets Union, and placed 17 op-eds and open letters in the press. We published eight cartoons, three webinars and an online educational unit on financial markets. Our Facebook and Twitter communities grew to 18,140 (up 22%) and 6,550 (up 24%). The 9,660 Friends of Finance Watch received 10 monthly newsletters.

EVENTS

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

CITIZENS' DASHBOARD OF FINANCE

Two dozen civil society organisations contributed to the prototype of the Dashboard, a tool that aims to reframe the debate around financial regulation by measuring the impact of the financial sector on citizens. After a workshop in April, the demonstration website for the tool was developed and launched in November at the "Finance and Climate" event in Paris.

MEMBERSHIP

We welcomed several new Members in Italy, Poland, the Netherlands, France and Germany. The Membership was very active, meeting in five Working Groups covering Capital Markets Union, Banks, TTIP, MiFID, and the Citizens' Dashboard of Finance. The team hosted seven workshops and dozens of conference calls for Members, many of whom also signed a joint statement on Capital Markets Union in September 2015.

FUNDING

Finance Watch received new funding from the Open Society Initiative for Europe, the Open Society Foundations New Executives Fund, the Hans Böckler Stiftung, and from two EU research programmes, DOLFINS and ENLIGHTEN. The Fondation pour le Progrès de l'Homme, a loyal supporter of FW since its inception, also renewed its support for three years. Nevertheless, the fundraising outlook for public interest advocacy in financial regulation worsened during the year. Our overall resources in 2015 were 17% lower than in 2014. Fundraising activities are a "make or break" priority in 2016.

STRATEGIC PLANNING

Over the course of 2016, Finance Watch is developing a new strategic plan for 2017-2019, via an inclusive process that involves the full membership, staff and other stakeholders. It will replace the expiring 2013-2016 plan and will be put to Members for approval in December 2016.

FUNDING

As for many NGOs, the sustainability of our funding is a critical concern. To date, Finance Watch has been independently funded by charitable foundations, public grants, membership fees and donations from the general public. As some of our seed funding programmes draw to a close, we urgently need to find more sources of funding to make our operations sustainable.

A MASSIVE IMBALANCE OF LOBBYING

The financial sector has a big stake in financial regulation: it spends hundreds of millions of euros a year on lobbying in Brussels to protect the tens of billions it earns in profits each year.

Together with its army of lawyers, lobbyists, accountants and consultants, the financial sector delivers thousands of pages of material to policymakers to influence regulatory outcomes every year. It hosts numerous events, briefings and private dinners with policymakers, and operates a seductive "revolving door" for policymakers looking for a new challenge.

But society has a bigger stake. Since 2007, millions of EU workers have lost their jobs, citizens have lost EUR 2.4 trillion in economic output and bail outs, public debt has soared, public services and development aid have been slashed.[1] These are only some of the effects of the last financial crisis - who knows what impact the next one will have?

But unlike the financial sector, civil society cannot afford to spend millions ensuring that its views are fully taken into account in financial policymaking. The consequence is that public interests are under-represented and the financial sector continues to avoid major reform. Finance Watch, the only dedicated public interest advocacy group working on European financial regulation, operates on a budget of less than €2m.

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

Professor Paul Embrechts, RiskLab, ETH Zürich

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

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

A HIGH RETURN ON INVESTMENT

Finance Watch makes the most of its resources. During its short history, our association has established a strong reputation in expert circles in Brussels and beyond, and the views of Finance Watch and its Members are being increasingly heard by policymakers.

[1] See www.citizensdashboardoffinance.org for more data on the cost of the crisis

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

Othmar Karas MEP (EPP, Austria)

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

Anneliese Dodds MEP (S&D, UK)

"We need Finance Watch to bring together a range of groups' interests in financial regulation. We need your input to the Commission's work and I know how much my colleagues have appreciated your contribution to our many initiatives, expert groups and consultations over the last few years."

Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union

Our work in 2015 relates only to a portion of the financial legislation under discussion at the moment. We would need to triple our research and public affairs teams to cover it all!

Finance Watch's biggest challenge for 2016 and beyond is to secure funding to continue our work.

"It is more important now than ever that Finance Watch continues to be adequately funded and resourced."

Anneliese Dodds MEP (S&D, UK)

"As financial institutions across Europe argue for a return to 'light touch' financial regulation, we need Finance Watch more than ever."

Sue Lewis, Chair, UK Financial Services Consumer Panel

LIST OF FUNDING SOURCES

as of 31 December 2015

› Membership fees
› Donations from general public
› Conference registrations
› European Union
› Adessium Foundation
› Better Markets
› Groupe Up
› Hans Böckler Stiftung
› Heinrich Böll Stiftung
› La Fondation Charles Léopold Mayer pour le Progrès de l'Homme (fph)
› Open Society Foundations New Executives Fund
› Open Society Initiative for Europe

A breakdown of contributions appears in Part 3.

WHAT CAN I DO?

If you share our goal of making finance serve society then please consider becoming a donor, large or small, as every donation sends a strong signal of support.

If you represent a funding organisation, please contact us to discuss your objectives and explore how supporting Finance Watch activities could help to achieve them.

Our current institutional funders share two important beliefs:

› **policymakers must hear a plurality of voices to protect the common good,**
› **finance is central to realising many of society's goals and aspirations, ranging from climate and development goals to justice and democracy, and many others.**

Society cannot afford to let financial policy be dominated by special interests, just as citizens cannot afford another financial crisis. The democratic problem of lobby imbalance can only be solved with strong public interest advocacy and effective campaigning. With adequate funding, Finance Watch and its civil society network can provide this.

In the last year, Finance Watch's outputs included:

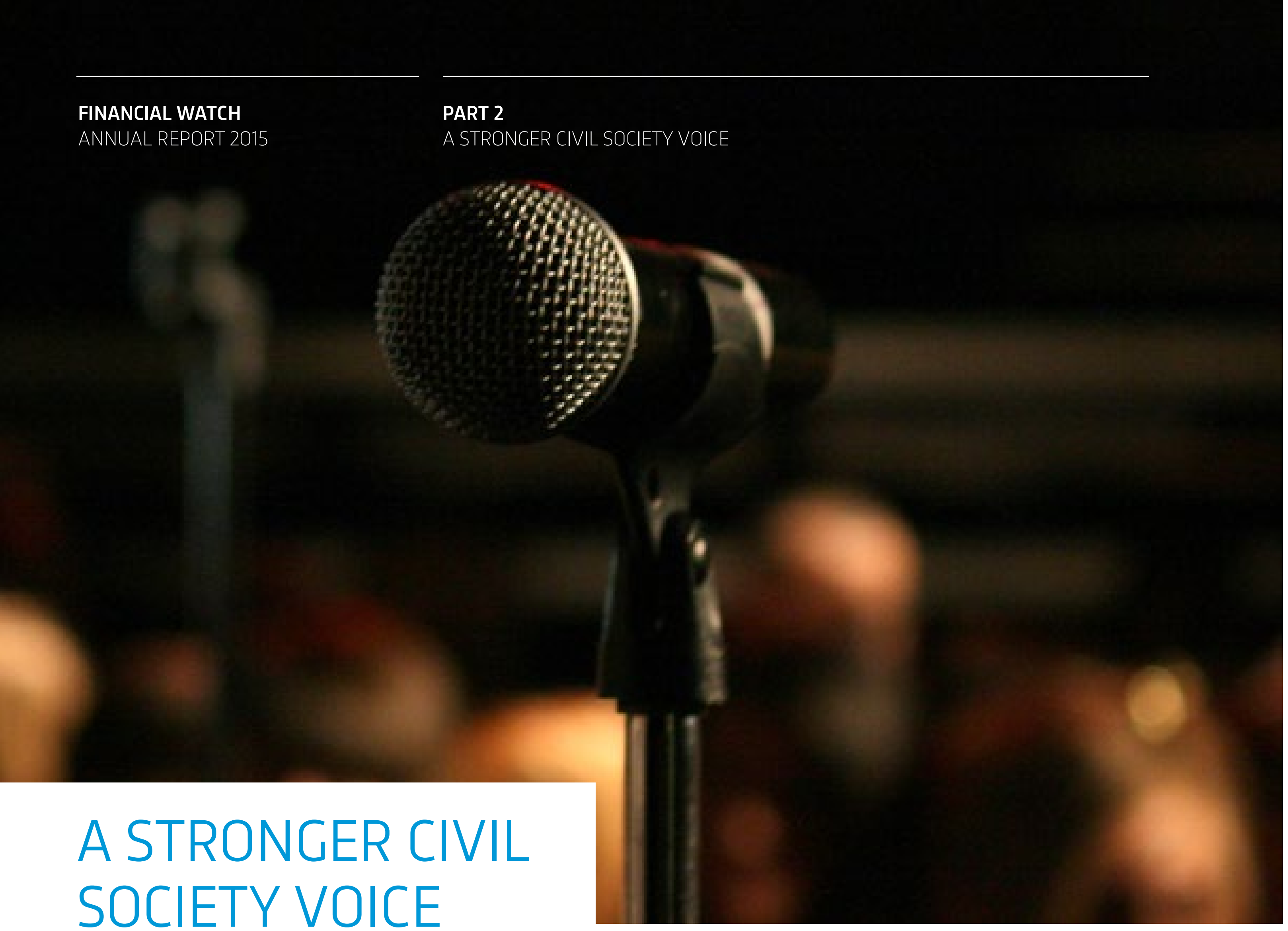
› **19 consultation responses**, reports, policy briefs and hearings
› **205 meetings** with policymakers and other stakeholders
› **146 journalists interactions** resulting in 226 media items
› **3 public conferences** and more than 30 civil society workshops and working group meetings

We are grateful to all our funders, including the members of the public who supported our work in 2015. Finance Watch's independence and impact as a public interest advocate are only possible because of your support.

Thank you!

PART 02

PART 02



A STRONGER CIVIL SOCIETY VOICE

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

> *"Finance Watch serves an essential purpose: it provides a voice for society and the broader economy in debates around reforming our financial system"*
>
> **Anneliese Dodds MEP (S&D, UK)**

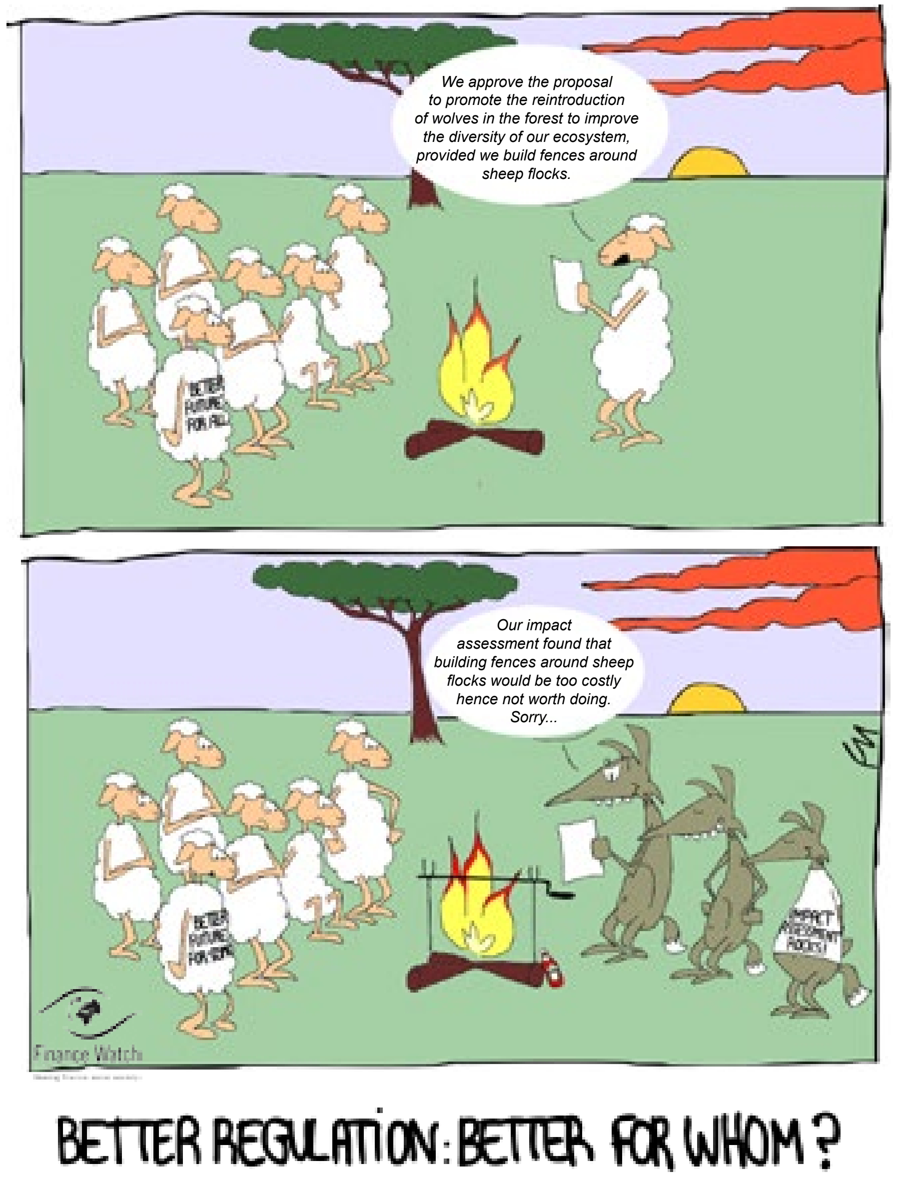
STANDING UP FOR REGULATION

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

> *"There is no room for error this time; a financial crisis now would be an economic disaster and would feed political extremism at a dangerous time in the EU's history."*
>
> **Christophe Nijdam, Secretary General of Finance Watch**

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

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



BETTER REGULATION

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

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

THE BETTER REGULATION WATCHDOG NETWORK

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

A major component of the Better Regulation initiative is a new Inter-Institutional Agreement about legislative procedures. The Commission's proposal for this text aimed to make the EU decision-making process more

Finance Watch is a founding member of the Better Regulation Watchdog Network and serves on the steering committee.

8 September 2015
The Better Regulation restaurant *(written by our Member organisation Solidar)*

23 July 2015
Beware of the impact assessment

FINANCE WATCH LAUNCHED A BLOG TO EXPLAIN SOME OF THE SUBTLETIES OF BETTER REGULATION
These look at ideas that sound as 'nice as apple pie', such as cutting red tape and measuring costs and benefits, but contain toxic ingredients, such as deregulation or one-sided evidence collection.

> *"Finance Watch is indispensable in the world of financial regulation. It courageously asks questions of public interest that hold policy makers to account and engages the non-specialist public on the political importance of making finance work for the greater good."*
>
> **Dr Daniela Gabor, Associate Professor, University of the West of England**

At the 16 June 2015 ECON hearing, "Stocktaking and challenges of the EU Financial Services Regulation", Finance Watch Secretary General Christophe Nijdam reminded MEPs of the high costs of insufficient regulation, and asked them to reject the fallacious idea of a trade-off between regulation and growth and jobs. Our key message is that financial stability is a pre-requisite for sustainable growth.

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

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

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

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

STOCKTAKING OF FINANCIAL REGULATION

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

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

In September 2015, the Commission issued a "call for evidence on the regulatory framework for financial services", which closed in January 2016. The call asked for empirical evidence on how new rules are affecting the economy, on regulatory burdens, inconsistencies and unintended consequences, and fulfils a longstanding request from the financial industry lobby for a study of the cumulative impact of new regulation.

PRESS RELEASE
Robust regulation is not an impediment for jobs and growth, consultation raises concerns, 1 February 2016
Instead of already taking stock of regulation which has not yet been implemented, Finance Watch calls on the European Commission to:
- complete Bank Structure Reform to address moral hazard;
- curb the excessive complexity of bank prudential regulation and the preferential treatment of large banks over small ones by addressing the well-known issues of the IRB (Internal Ratings Based) approach and giving a more prominent role to simpler and more robust metrics such as the leverage cap;
- address key factors of systemic risks such as interconnectedness through macro-prudential regulation.

A REGULATORY LEARNING CURVE

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


2007

> *"We believe that a "light touch", principle-based regulation is the best approach for the financial sector"*
>
> **Charlie McCreevy, then European Commissioner for Internal Market and Services, speech to European Parliament, 11 September 2007**


2011

> *"I think the global regulatory system in total failed. There was a belief that light-touch regulation would make the City bigger, and that the City was a source of employment and tax revenue."*
>
> **Lord Adair Turner, then chairman of the FSA, 14 December 2011**

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

TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

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

Welcome to the first podcast of Finance Watch, in which Aline Fares and Frédéric Hache discuss the "TTIP".

30 September 2015, Let's speak finance: The TTIP

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

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

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

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

> *"Finance Watch allows us to be up to date regarding the processes and decisions taken on a European level, and brings intelligence and information on financial matters. It gathers the voices of national civil society organisations and brings them into the European debate."*
>
> **Andrea Baranes, President of the Fondazione Culturale Responsabilita Etica (Member of Finance Watch)**

BUILDING CIVIL SOCIETY CAPACITY

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

WORKING GROUPS

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

Highlights of the year's work included:

Members of the Capital Markets Union (CMU) Working Group responded to the Commission's CMU consultation in May 2015, and issued a joint statement on the Commission's Action Plan in September 2015 together with a coordinated press strategy.

The Banks Working Group worked on Bank Structure Reform, bail-in and a number of consultations on bank capital and loss absorbency, following up on the European agenda as well as on initiatives of international bodies such as the Financial Stability Board and the Basel Committee.

In September 2015, the Banks Working Group coordinated a wider civil society response to the Commission's CRD consultation

The Working Group on TTIP focused on sharing information and developing capacity to oppose the inclusion of financial services in TTIP, and other actions described above.

The Working Group on MiFID worked on commodity derivatives and consumer issues, meeting initially with Members Oxfam, SOMO and WEED to coordinate detailed Level 2 advocacy, and then with the entire group as the debate moved back to the political level.

The Working Group on the Citizen's Dashboard of Finance held a workshop in Brussels in April 2015 to refine the list of indicators, and met again in November 2015 to discuss environment indicators in Paris, when the demonstration website of the Dashboard was unveiled. The Dashboard steering committee also met four times during the year.

EVENTS AND OTHER ACTIVITIES WITH MEMBERS

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

JOBS

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

> *"As President of Uni Europa Finance, representing around 1.5 million finance employees, I value the access to high quality expert knowledge which adds more insight to the debate on the sustainability of the financial sector and the sector's role in society."*
>
> **Michael Budolfsen, President, Uni-Europa finance (Member of Finance Watch)**

DEVELOPMENT

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

CLIMATE

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

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

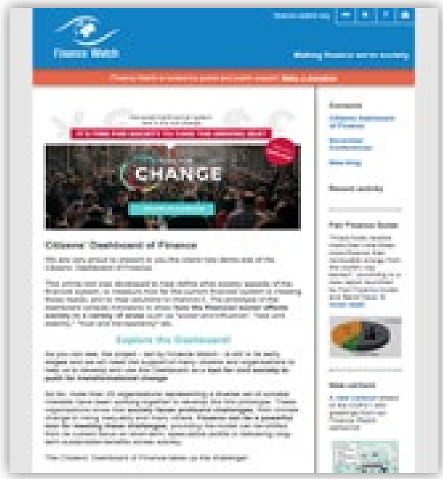
MEMBERS' UPDATES

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

Members' updates

EXPLAINING FINANCE TO THE PUBLIC

Members of the public can learn about finance and Finance Watch's work in a variety of more accessible formats including newsletters, educational units, webinars, blogs and cartoons.



Friends Newsletter

Online educational materials

FRIENDS NEWSLETTER

More than 9,000 people subscribe to the monthly "Friends of Finance Watch" newsletters, which had an open rate of more than 30% in 2015.

ONLINE EDUCATIONAL MATERIALS

We explain how key components of the financial system work and affect citizens via a series of online, multimedia educational units. The third chapter in our "Understanding Finance" series explained the basics of how our financial markets work, and described which kinds of markets would be needed to serve our economy and society again. This educational unit follows the previous ones on splitting megabanks (chapter one) and financial services in TTIP (chapter two).

WEBINARS

There were three Finance Watch webinars in 2015, all open to the public. They are broadcast live at lunchtime and normally consist of an illustrated presentation followed by a live Q&A, lasting around 45 minutes. The recordings are indexed and made available online.

"What is securitisation?"
27 July 2015 Frédéric Hache explains how securitisation works and why it needs a robust regulatory framework.

"Understanding Capital Markets Union"
11 May 2015 Frédéric Hache explains how Capital Markets Union might impact the lives of citizens and taxpayers.

"What is Level 2 rulemaking?"
2 April 2015 Katarzyna Hanula-Bobbitt explains the world of "Level 2" rulemaking

BLOGS

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

13 February 2015
The perfect draw - when cigarettes became a war camp currency

9 November 2015
The EU's role in international financial bodies

CARTOONS

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

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

DEVELOPING OUR OWN ORGANISATION

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

MEMBERSHIP DEVELOPMENT

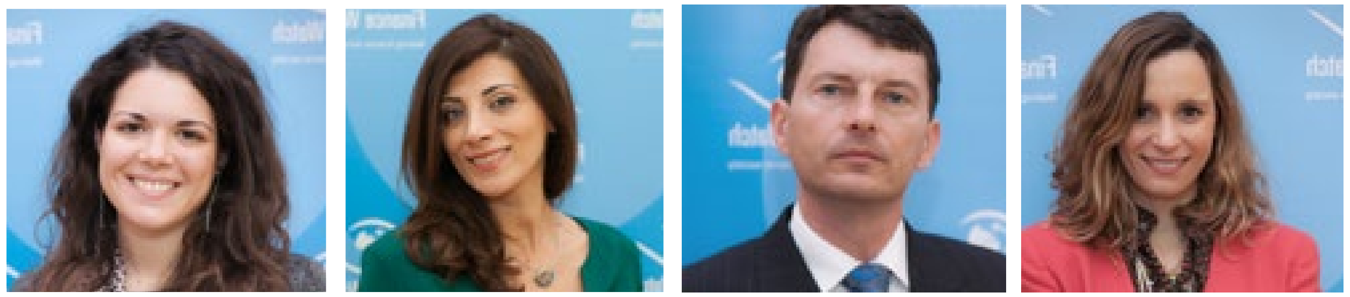
The team held 40 meetings with potential new Member organizations and expert individuals in the targeted countries of Italy, Poland and the Netherlands, leading to five new Members so far and several applications in the pipeline.

BOARD NEWS

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

> *"The work of Finance Watch is of the highest importance for us in Italy. The rules and decisions regarding the financial system are taken almost exclusively in Brussels, and it is almost impossible for the Italian civil society to follow them in detail, not to mention trying to influence or participate to the debate. Finance Watch is essential in both these directions."*
>
> **Andrea Baranes, President of the Fondazione Culturale Responsabilita Etica (Member of Finance Watch)**

STAFF NEWS



Left to right: Jessica Porelli, Ayda Kaplan, Christian Stiefmueller and Giulia Porino

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

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

GOVERNANCE

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

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

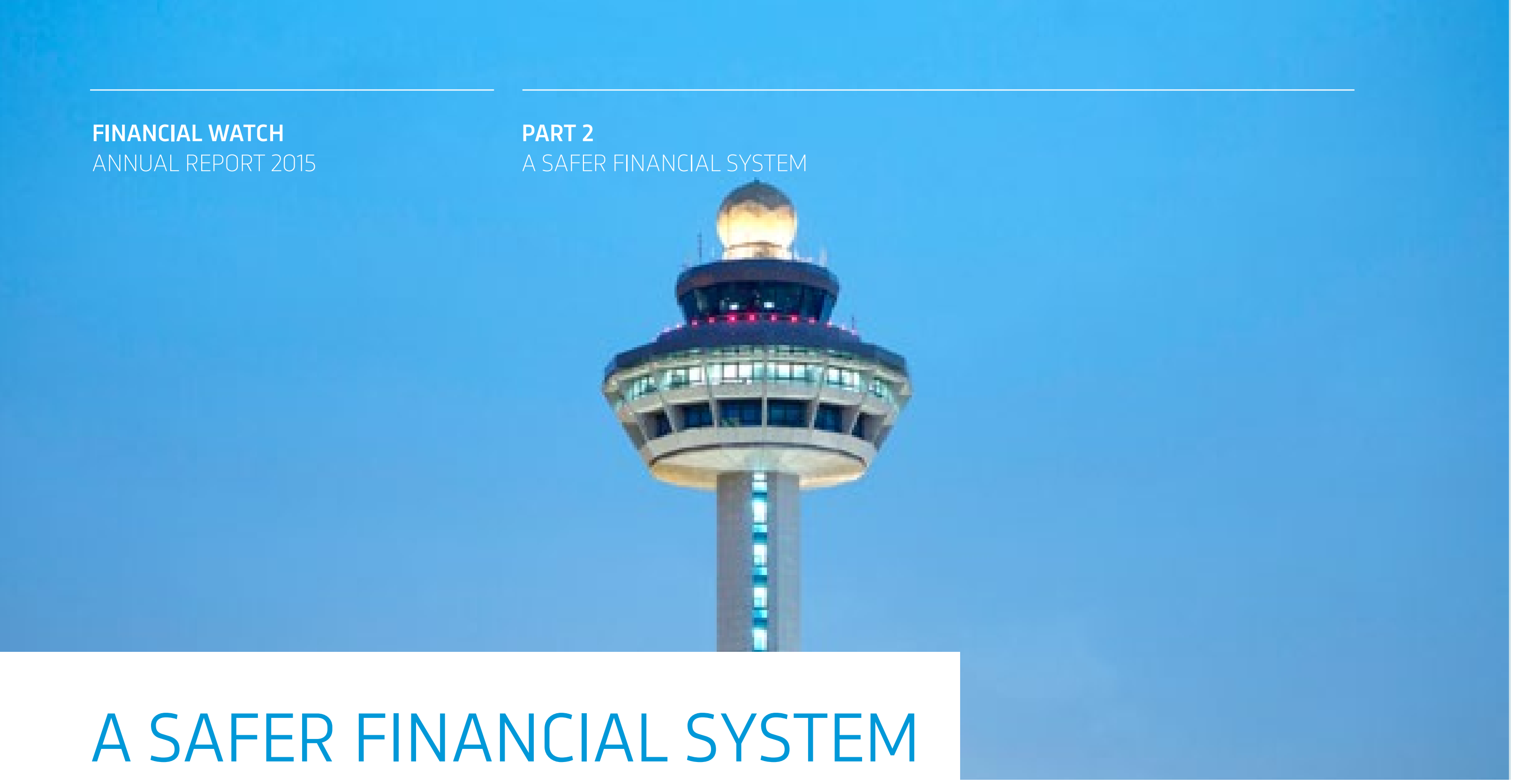
FUNDRAISING

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

> *"Finance Watch is a democratic necessity: it brings alternative weight coming from civil society that counterbalances the financial lobbies and facilitates a reappropriation of the question of finance by citizens so that they can take power back into their hands."*
>
> **Juliette Decoster, Fondation Charles Léopold Mayer – FPH (Finance Watch funder)**

> *"Finance Watch is an entirely unique organization that combines all of the attributes of an elite think tank with the democratic ethos of a social movement. It is David to the finance industry's Goliath. Finance Watch's depth of expertise in service to the mission of making finance serve society - and not vice versa - helps to make it harder for the giant to run roughshod over the public."*
>
> **Susan Treadwell, Open Society Foundations (Finance Watch funder)**

18 November 2015 General Assembly in "Mundo B" Brussels



A SAFER FINANCIAL SYSTEM

> *"You always need a second opinion, as with the doctor's advice. Finance Watch is a valuable, professional source of these second opinions to complete the picture when we are preparing financial legislation."*
> **Sirpa Pietikäinen MEP (EPP, Finland)**

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

CAPITAL MARKETS UNION AND SECURITISATION

The Capital Markets Union (CMU) is the landmark financial reform of the new Commission. Its stated aim is to boost growth and jobs by promoting capital market financing of the economy. It was launched with 11 initiatives (since increased to 35), of which the most prominent so far are moves to promote shadow banking and securitisation, and steps to help companies raise equity capital.

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

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

DEMYSTIFYING CMU

We explained the issues and jargon associated with CMU using a variety of cartoons, webinars, blogs and Q&As.

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

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

SPREADING THE WORD

Our messages on CMU appeared 59 times in the mainstream media and were supported on social media under the hastag #CMU4who. In the summer 2015, we organised a press briefing on CMU for Italian journalists in Brussels and published three press releases during the year:

PRESS RELEASE
› Finance Watch sceptical about key parts of Capital Markets Union plan for sustainable growth, 18 February 2015

PRESS RELEASE
› Capital Markets Union is not a cure-all for SME jobs and growth, may generate new risks, 2 June 2015

PRESS RELEASE
› Finance Watch comments on Capital Markets Union Action Plan, 30 September 2015

Finance Watch's Members formed a Working Group on Capital Markets, which met in person and by teleconference. Our Members submitted more than a dozen individual civil society responses to the green paper consultation, covering a wide range of viewpoints and issues, and via the Working Group we coordinated a joint statement signed by 30 civil society organisations, including major European NGOs and trade unions, to express concerns about the CMU. The statement, entitled "Who will benefit from the Capital Market Union?", was released on 29 September 2015, the day before the Commission published its CMU action plan. One of its main objectives was to show the diversity of voices and debunk the often-heard statement that "everyone is in favor of the CMU".

> *"Finance Watch is a valued stakeholder in the European financial services arena, helping those of us active in the provision of financial services to end-users ensure that all angles of debate are taken into account in our work."*
> **Luca Bertalot, Secretary General of European Covered Bond Council**

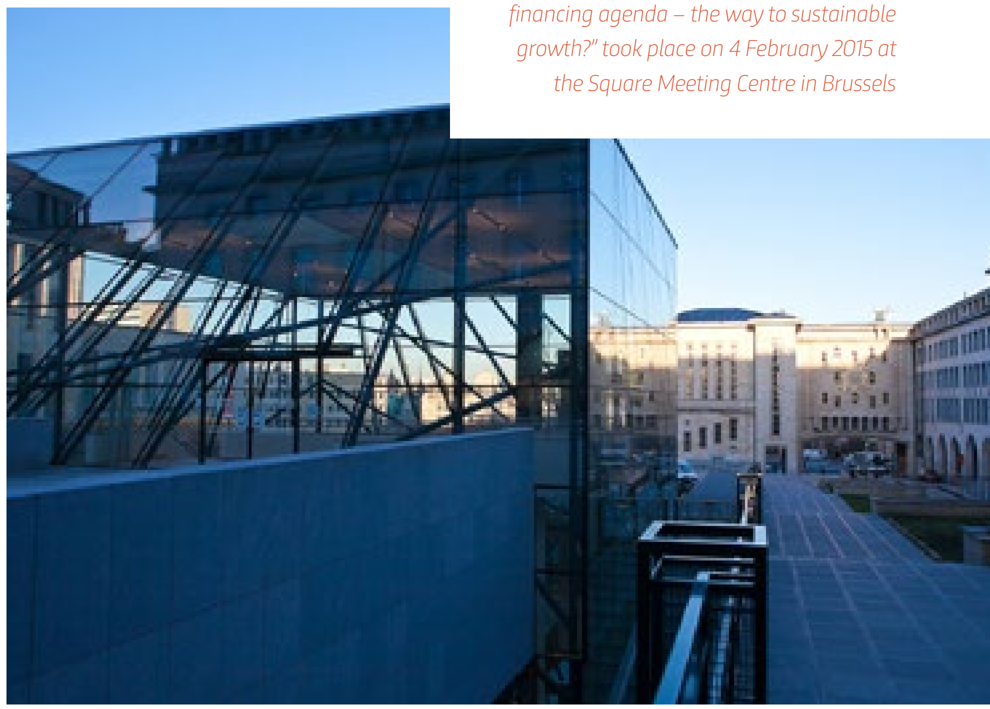
Working Group discussions led to several letters being published in the Financial Times, including one from Finance Watch urging that CMU be used to benefit the real economy rather than the largest banks on 15 October 2015.

Christophe Nijdam, Secretary General of Finance Watch, also spoke at the Commission's 8 June 2015 public hearing on CMU.

PUBLIC CONFERENCE

Finance Watch's conference "The long term financing agenda – the way to sustainable growth?" took place on 4 February 2015 at the Square Meeting Centre in Brussels, in front of more than 200 policymakers and representatives of civil society and the financial sector.

The panel discussions covered the consequences of promoting securitisation and the characteristics needed to earn the label "high



Finance Watch's conference "The long term financing agenda – the way to sustainable growth?" took place on 4 February 2015 at the Square Meeting Centre in Brussels

14 January 2015
Response to EBA consultation on simple, standard and transparent securitisations

13 February 2015
Response to the BCBS/IOSCO consultative document criteria for identifying simple, transparent and comparable securitisations

13 May 2015
Response to Commission consultation on framework for simple, transparent and standardised securitisation

13 May 2015
Response to the Commission Green Paper on Capital Markets Union

For newcomers to the topic we published an easy-to-read guide, "Capital Markets Union in 5 questions" (available in English, French, Polish, Italian and German) and for those with some prior knowledge we prepared a more detailed Q&A on Capital Markets Union and STS Securitisation.

quality securitisation", and in the second panel the increasing importance of collateral, including the systemic benefits and negative externalities of securities financing transactions and the need for minimum haircuts and limits on the re-use of collateral.

Commissioner Hill addressing the 4 February 2015 conference

There were six speeches during the day. In the first, our Secretary General Christophe Nijdam reminded delegates that the CMU promotes the investment banking model over traditional banking; Dr Lothar Blatt-von Raczeck of the German association of savings banks advised the Commission to approach its jobs and growth goal by promoting traditional, regional and local banks; Dennis Kelleher of Better Markets in the US warned against false claims of a trade-off between regulation and job creation, pointing out that the "the real job-killers" were not regulation but the crashes of 1929 and 2008; Finance Watch's head of policy analysis Frédéric Hache made the case for excluding 'tranching' from the definition of high quality securitisation; the Financial Times's Martin Wolf explained how Eurozone risks could be partly addressed by reducing short-term and cross-border lending and having better capitalised banks; and the Commissioner Lord Jonathan Hill gave his overview of CMU, explaining how he saw banks as an important distribution channel for market funding.

List of speakers (in order of appearance):

› Christophe Nijdam, Secretary General, Finance Watch
› Dr. Lothar Blatt-von Raczeck, Deutscher Sparkassen- und Giroverband (German association of savings banks, DSGV), Delegate of the Board to the EU
› Frédéric Hache, Head of Policy Analysis, Finance Watch
› Paul Embrechts, Professor of Mathematics, ETH, Zürich
› Luca Bertalot, Secretary General, European Covered Bond Council
› Richard Hopkin, Head of Fixed Income, AFME
› Bogdan Patriniche, Managing Partner, Lakestone Capital
› Moderator: Anna Brunetti, ThomsonReuters
› Martin Wolf CBE, chief economics commentator, Financial Times London,
› Richard Spencer, Head of Sustainability, Institute of Chartered Accountants in England and Wales (ICAEW)
› Dennis Kelleher, President and CEO, Better Markets
› Werner Bijkerk, Head of the Research Department, IOSCO
› Daniela Gabor, Associate Professor, Bristol Business School
› Andy Hill, Director of Market Practice and Regulatory Policy, International Capital Market Association (ICMA)
› Kevin McNulty, CEO, International Securities Lending Association
› Moderator: Paulina Przewoska, Senior Policy Analyst, Finance Watch
› Lord Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union

OUR TECHNICAL POSITIONS

Finance Watch responded to four consultations on this topic: one on the green paper on Building a Capital Markets Union, and three on securitisation.

The team also contributed articles to several outside publications

12 April 2015
Frankfurter Rundschau
Die wahren Profiteure
Traditionelle Banken, die Spareinlagen als Kredite an Unternehmen weiterreichen, haben sich als krisenfester erwiesen als Investmentbanken. Trotzdem will die EU jetzt gerade letztere implizit fördern.

29 May 2015
Revue Banque
Le point de vue de la société civile
L'Europe a-t-elle vraiment besoin de l'Union des marchés de capitaux ? Pour renforcer la croissance et l'emploi, la Commission propose de davantage développer le financement de l'économie européenne par les marchés, sur le modèle américain. Pour Finance Watch, c'est méconnaître les leçons de la crise.

4 November 2015
Le Nouvel Economiste
Ma très chère banque
Relancer la titrisation, pour qui, pourquoi ? La relance de la titrisation par l'UE ne vise pas tant à aider les PME ou à relancer la croissance qu'à améliorer la rentabilité des mégabanques européennes

October 2015
Rundbrief Forum Umwelt & Entwicklung
Money for Nothing: Krise als Geschäftsmodell

WE PUBLISHED GUEST BLOGS FROM ACADEMICS

Finance Watch staff also spoke in several high level public events on CMU, including panels and conferences and the Commission's public hearing on 8 June 2015, as well as at a workshop for MEPs, a breakfast briefing for financial services attaches from the Council, and 77 meetings with policymakers and industry stakeholders.

Jakob Vestergaard
Putting the Capital Markets Union on sustainable foundations, October 2015

Daniela Gabor
The Capital Markets Union: Faith in finance restored, contract with finance rewritten?
23 July 2015

Our position on Capital Markets Union:

› The CMU is not a new idea: the growth of securitisation and market-based banking and increased cross-border flows of collateral were already pre-crisis trends. There is no compelling evidence to justify changing the European model and promote capital market financing over traditional banking. As the growth of non-bank lending will lead to a more collateral-intensive financial system, it is likely to increase pro-cyclicality and interconnectedness, two major systemic risk factors.
› The alleged objective to promote capital market financing to help European SMEs access financing does not hold to the facts: first of all, banks have increased their capital since the crisis, making them able to lend more today than before the crisis. And recent surveys of EU SMEs by the ECB show that their biggest concern today is finding customers, whereas access to finance is one of their lowest concerns.
› The main purpose of the Capital Markets Union and the revival of securitisation is not to help SMEs but rather to boost the competitiveness and profitability of European financial institutions.
› The whole debate about the need to increase the supply of credit to the real economy is focussed on quantity and not quality of credit, yet one lesson from the crisis is that access to credit is not an issue in normal times but only in times of stress. What we need is not more credit in general but more stable credit that does not withdraw quickly in times of stress. Increasing the reliance on capital market financing will make the economy more vulnerable to the heavy mood swings of the financial markets. This is not the kind of stable funding that companies need to grow. In this respect CMU should refocus on the original intention to promote patient capital investing in illiquid assets.
› By reviving securitisation, CMU will implicitly promote the investment banking model, in contradiction of the lessons from the crisis. We need instead to promote the traditional, retail-funded banking model that proved more robust.
› The higher pro-cyclicality of non-bank lending raises a moral hazard question since it means you need an entity that will buy when everyone wants to sell, yet shadow banking does not have explicit and direct access to public safety nets and the crisis has shown the ineffectiveness of private backstops. This means that we must decide between extending access to public safety nets to shadow banking, which would increase moral hazard, or alternatively shrinking the size of - and not promoting - shadow banking.

Our position on securitisation:

› Stronger rules are needed to determine which type and minimum quality of underlying assets can be included in the various definitions of securitisations that would qualify for prudential relief.
› The technique of tranching (issuing different types of securities with a different legal seniority in terms of repayment) creates enormous complexity and conflicts of interests. It should not be allowed in the framework of simple transparent securitisation if it is to be truly simple.
› The framework should not open the door to a future inclusion of synthetic securitisations. These securitisations are just financial bets that do not finance anything and are used mostly for regulatory arbitrage.
› Risk retention requirements should be increased for both qualifying and non-qualifying securitisation to a vertical slice of 15-20%. Risk retention rules require the originator or sponsor to keep a portion of the securitisation to avoid the conflicts of interests seen during the crisis and ensure that they do not only securitise "bad" loans. The current requirement of 5% has been shown to be too low to exert any meaningful impact. It must also be noted that retaining part of the securitisation is neither a punishment nor a cost since the bank gets a return for keeping the loans.
› We do not support excessive maturity transformation in asset backed commercial papers (ABCP).

BANK CAPITAL

Bank capital protects citizens from bank failures by absorbing losses on bad loans so taxpayers won't have to. Finance Watch had previously worked on the EU's landmark "CRD IV" legislation implementing Basel III, which came into force in 2014 after a period of intense legislative debate. One academic wrote that, thanks to help from civil society organisations including Finance Watch, the lawmakers on CRD IV "were able to achieve policy gains that undercut strong interests in the financial industry".[2]

Despite this progress, capital requirements are not nearly high enough. In addition, the way capital requirements are calculated means they are easily circumvented, for example when large banks use internal models to estimate the riskiness of their assets.

In May 2015, we responded to a consultation from the European Banking Authority (EBA), noting that banks can still use internal models under the so-called 'Internal Ratings-Based (IRB) Approach' to reduce their overall capital requirements. We highlighted some of the flaws in this approach, suggesting ways that banks could rely less on external ratings and internal models, and welcomed EBA's initiative to consider a more fundamental review of the IRB Approach.

4 May 2015
Response to EBA discussion paper and consultation on the future of the Internal Ratings-Based (IRB) Approach to measuring capital requirements.

FINANCE WATCH'S POSITION

Bearing in mind the shortcomings of internal models, arising mostly from model uncertainty, complexity and regulatory arbitrage, Finance Watch is convinced that the regulatory framework should not rely on them as a major Pillar 1 indicator of capital. A simple leverage ratio has been shown to be a much better predictor of banks' distance to default.

[2] Greenwood, Justin (2014) "The 'Europeanization' of the Basel process: Financial harmonization between globalization and parliamentarization", Regulation & Governance

Therefore, until a major re-think regarding the role of internal models and risk weighted capital ratios is accomplished, it is important to introduce a leverage cap as a binding Pillar 1 measure and to keep the Basel I floor or introduce the Standardized Approach floor (provided that it will not result in a softened prudential treatment) as put forward by the Basel Committee on Banking Supervision.

12 August 2015
Frankfurter Rundschau
Banken benoten sich selbst
Die Banken sollen für den Krisenfall mehr Geld bereithalten. Das ist sinnvoll und richtig. Doch Schlupflöcher machen es den Geldhäusern leicht, die Regeln zu umgehen.

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

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

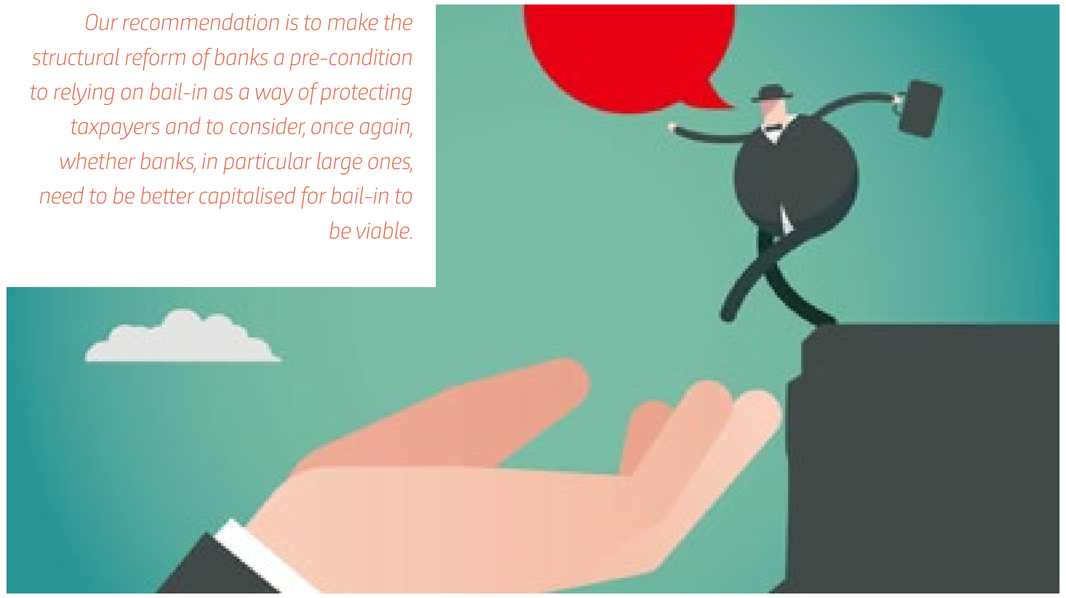
We have also followed the Basel Committee on Banking Supervision's Fundamental Review of the Trading Book, which looked among other things at how much capital banks should use to fund their trading operations and led to the BCBS's January 2016 revised market risk framework.

BANK BAIL-IN

If capital is not high enough to absorb bank losses, another way to protect taxpayers is to "bail in" a troubled bank's creditors. Regulators have placed a lot of hope in the idea that losses can be imposed on bank creditors in a banking crisis, and have been consulting on which creditors to involve and how much loss absorbency they should provide.

Finance Watch responded to consultations on this from the Commission and the Financial Stability Board. In addition to our technical points, we highlighted a significant problem with the bail-in approach: it will make other dominos fall if the crisis is serious.

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



3 February 2015
Response to FSB consultation on TLAC

27 February 2015
Response to EBA consultation on MREL

The reason is that, as long as the financial system contains systemically important banks that are highly interconnected, a decision to apply bail-in will multiply losses through the system, which could probably not absorb all the losses if more than one large bank failed at the same time.

BANK STRUCTURE REFORM

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

PRESS RELEASE
› Draft ECON report would make bank structure reform ineffective, says Finance Watch, 8 January 2015

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

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

Finance Watch was highly critical of this approach and urged MEPs to reject Hökmark's report. In the months ahead of the vote at the Parliament's Economic and Monetary Committee (ECON), the public affairs team met intensively with MEPs while the policy analysis team published two technical policy briefings to debunk the arguments used against structural reform. The team also published a press release, two articles in the French and German press, a series of blog articles showing how the reform would benefit different member states, and contributed to dozens of mainstream press mentions.

PRESS RELEASE
› New chance to get bank structure reform right, says Finance Watch, 27 May 2015

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

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

In the meantime, the Council reached a political agreement on 19 June 2015 on a weakened text that would allow supervisors to require extra capital buffers at the 14 largest banks (those with more than €100bn in trading assets) but would apply structural separation only as a last resort.

Bank structure reform in danger
The continuous fling with investment banking
Just a little bit of banking separation
A missed chance
Too Big to Separate? A French and German defence of their biggest banks
More useful, less interconnected

Blogs from Finance Watch Members in different countries.

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

Bank structure is also relevant to several other areas. We argue that an effective bank structure reform is essential for moves on loss absorbency and bail-in to be credible (see above), and for corporate governance to be effective.

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

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

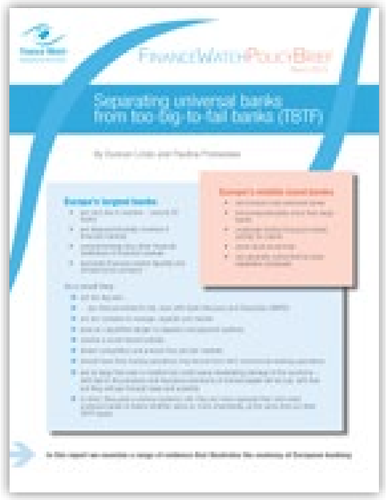
We also wrote articles for publication in Italy (Il Manifesto's weekly supplement 'Sbilanciamoci!') and Austria (Wirtschaftspolitik magazine) on the problem of too-big-to-fail.

THE CASE FOR BANK STRUCTURE REFORM

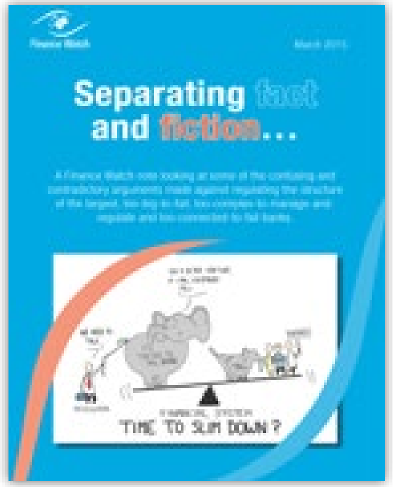
Financial markets have become dominated by a small group of very, very large banks, swollen by too-big-to-fail subsidies. These banks:

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

Structural reform of these banks would boost competition from smaller, more real economy-focussed banks. It would help bigger banks to focus more on the real economy instead of on trading and derivatives. It would level the playing field for Capital Markets Union by removing unfair too-big-to-fail subsidies and encouraging a capital market of many, reasonably sized and diverse institutions that are less exposed to systemic risk. It would make troubled megabanks easier to resolve and reduce taxpayer-funded bail-outs in a future crisis.



Using new data compiled from the ECB and other public sources, we illustrated the fundamental differences between Europe's 20 or so largest banks, with their focus on trading, and the 400 or more next largest universal banks, which focus on lending and serving their local economies. These mid-sized firms are Europe's "true" universal banks and are generally untouched by bank separation proposals



16 March 2015 debunk paper

FINANCE THAT SERVES SOCIETY

The financial system is well-known for sometimes focusing on speculation at the expense of investing, and for ignoring its effects on the outside world, or externalities. In some cases where this happens regulators are already addressing the problem, such as with the funding of SMEs or the curbing of excessive speculation in commodity derivatives, providing the regulations pass without being watered down. In other cases, policymaking is at an earlier stage and the task is to raise awareness.

BANK LENDING TO SMEs

Bank lending to the real economy and to small and medium sized enterprises (SMEs) in particular has been weak since the financial crisis, as banks struggle with a legacy of bad loans and low capital. In July 2015, the Commission opened a consultation on the impact of new bank capital regulations on bank lending to the economy, as part of a scheduled review to check for unintended consequences of the new rules. Among other things, the consultation asked about the so-called 'SME supporting factor', which reduces the amount of capital required for SME loans relative to other loan categories, one of the points pushed for by Finance Watch in 2012.

We encouraged our Members and other civil society organisations to respond to the consultation, to make sure that legitimate concerns about credit provision to the real economy would not be used to undermine bank capital rules.

Among our key points was that increased capital requirements have increased the overall capacity of banks to lend.

> *"The main lesson from the financial crisis is that only well capitalised banks are able to provide lending on a sustainable basis".*
>
> **BIS Papers No 75, December 2013, Long-term finance: can emerging capital markets help?**

7 October 2015
Response to Commission consultation on the possible impact of the CRR and CRD IV on bank financing of the economy

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

PUBLIC INTEREST AND BANKING

Over the past 20 years banks have expanded their activities beyond their basic functions

The team has started a blog series to share findings from the workshops and publish contributions from academics and civil society representatives involved.
- **Representation of public interest in banking #0** Introduction: A contribution to shaping a vision for the future of banking in Europe, 16 December 2015
- **Representation of public interest in banking #1** The major contribution of the workshops in the research, 17 December 2015

Charlotte Geiger leading a workshop

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

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

FOOD SPECULATION

In 2014, the EU agreed on new rules to curb excessive speculation in commodity derivatives markets, which greatly influence the prices of food and other essential goods. The rules introduce "position limits" to reduce the amount of speculative trading in these markets to a more reasonable level. This follows years of campaigning and advocacy by NGOs concerned about derivative speculation, including Finance Watch and several of our Members.

2 March 2015
Response to ESMA consultation on MiFID II/MiFIR Technical Standards

PRESS RELEASES
- Finance Watch calls on Commission to ignore industry-biased ESMA advice on inducements in MiFID II, 6 February 2015
- ESMA should revise its proposal on commodity derivatives, 19 March 2015
- Finance Watch welcomes Commission decision to review MiFID II commodity position limit rules, 18 March 2016

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

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

We worked with MEPs to make sure that any unambitious position limits would face a rejection from Parliament, putting pressure on the Commission to change the ESMA proposals.

Finance Watch staff also spoke at ESMA's public hearing in Paris on 19 February 2015 and responded to ESMA's consultation in March 2015, calling for position limits be set significantly lower than the level proposed, as well as writing several briefings for policy-makers on the impact of ongoing changes to Level II drafting.

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

FINANCE WATCH'S VIEW
Derivatives trading helps businesses to manage their economic exposures. But the tail should not wag the dog: if the prices of essential materials are driven by momentum trading and excessive speculation instead of basic supply and demand, then we all have a problem. A mandatory position limits regime is a tool to restore balance to these essential markets.

HIGH FREQUENCY TRADING

As financial markets become ever more high tech and dominated by computer trading, the possibility increases for abusive "technological front-running and price manipulation" strategies, flash crashes and infrastructure breakdowns. The EU's landmark MiFID II legislation introduced measures to control the most acute risks relating to high frequency trading and, like commodity derivatives, these were also subject to technical rulemaking at Level 2.

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

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

PRESS RELEASE
› Better Markets and Finance Watch Joint Statement on the SEC's Proposal to Enhance Oversight of HFT Traders, 26 March 2015

" Some high frequency traders are using special data access and lightning fast computers to generate virtually guaranteed profits at the expense of investors and destabilizing markets. Yet due to a decades-old loophole in SEC rules, they aren't all subject to the same oversight as other broker-dealers. Regulators in Europe are well ahead of the United States in responding via MiFID II legislation to what is fast becoming a global problem, and it's time for the SEC to catch up."

CLIMATE AND FINANCE

A month ahead of the Paris Climate Change Conference (COP21) in December 2015, Finance Watch teamed up with more than 20 other civil society organisations to organise a public conference in Paris on whether the financial sector can help society to achieve its climate goals.

Introduction to the 5 November 2015 conference "Finance and climate: How to shift the model?" by French stand up comedian, Christophe Alévêque, co-author of the book "On marche sur la dette" ("We walk on debt")

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

Speakers

› Frank Bournois, Director General, ESCP Europe
› Benoît Lallemand, Head of Strategic Development, Finance Watch
› Christophe Alévêque, stand up comedian
› Geneviève Azam, lecturer and researcher in economics, Université de Toulouse II
› Jean-Michel Naulot, former banker and member of the Autorité des Marchés Financiers (AMF)
› Jean-Louis Bancel, President and Director General, Groupe Crédit Coopératif
› Alexandre Naulot, financial policy affairs, Oxfam France
› Wojtek Kalinowski, co-director, Institut Veblen (moderator)
› Stanislas Dupré, Executive Director, 2° Investing Initiative
› Lili Fuhr, Head of Ecology and Sustainable Development, Heinrich Böll Stiftung
› Claude Simon, Emeritus Professor, ESCP Europe (moderator)
› Aline Fares, Head of Membership, Outreach and Expertise coordination, Finance Watch
› Pierre Ducret, Climate and COP21 advisor, Groupe Caisse des Dépôts
› Christophe Nijdam, Secretary General, Finance Watch

FOSSIL FUEL DIVESTMENT

To fight climate change and reduce CO2 emissions, environmental advocates have found a new tool: targeting the funding of companies that explore and extract fossil fuels. The divestment movement was born to convince investors to stop financing those companies. Boosted by impressive successes despite opposition, the movement has one major benefit: it forces investors to consider their impact on the real economy. This guest blog from Fabien Hassan was one of our most read articles of the year.

CROWDFUNDING

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

MICROCREDITS

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

LIQUIDITY

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

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

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

30 October 2015
Microcredits in the EU

26 June 2015
Liquidity – a double-edged sword

"If the industry could decide, it would give way to more and more complex financial products understood by fewer and fewer people. Alas, all too often the industry has a dominant role in decision-making. Therefore, as a lawmaker it is critical to engage with organizations that use their knowledge and experience to put forward the public interest. Finance Watch has proven to be a reliable and knowledgeable counterweight to private interest lobbying."

Paul Tang MEP (S&D, Netherlands)

FINANCE THAT CITIZENS CAN TRUST

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

COMPLEXITY LABELS AND PRIIPS

Since the Packaged Retail Investment and Insurance Products Regulation (PRIIPs) was published in 2012, our work on it has focussed on how to protect retail investors from the sale of unsuitable financial products. A key element is the idea of a "complexity label" to warn retail investors if they are about to buy something that is not simple and may be difficult to understand. The idea is similar to the health warnings that appear on the packaging of some food products.

With an increasing number of 'innovative' investment products on the market, Finance Watch has been working on this idea for several years and in 2013 successfully convinced MEPs to include the complexity label in the PRIIPs legislation. The label was included in the Level 1 text agreed in April 2014 (largely a result of Finance Watch's work, according to an academic study).[3]

17 February 2015
Response to the discussion paper on PRIIPs Level 2 published by the Joint Committee of the three European Supervisory Authorities

In 2015, we worked on the detailed implementation of the complexity label by responding to two public consultations– so-called PRIIPs Level 2.

17 August 2015
Response to a later discussion paper on PRIIPs Level 2 published by the Joint Committee of the three European Supervisory Authorities

This involved making recommendations to help product manufacturers know when to apply the label, for example when the product includes features that play on behavioural biases such as "teaser rates".

INDUCEMENTS

More than half of all investment products sold to consumers can be considered too risky or illiquid for their needs, according to a study for the Commission. A key factor in whether investors end up buying a suitable or an unsuitable product is the way that retail financial advisors and intermediaries are paid, and especially the role of sales commissions.

New rules to protect investors were agreed under MiFID II but the financial industry lobbied hard to water them down at Level 2, when rules on how member states should implement the Level 1 law are agreed. In contradiction to the Level 1 objectives, ESMA's draft technical advice said that bank staff and financial intermediaries who receive sales 'inducements' could continue do so without telling their clients that they are receiving payments from the product manufacturer. It would be like walking into a TV shop and being pushed to buy a specific brand because the sales person gets a higher bonus for selling that brand.

Finance Watch firmly opposed this advice in meetings with policymakers, saying it reflected the lobbying agenda of parts of the financial industry rather than the needs of consumers.

We coordinated with consumer champion BEUC and other NGOs such as Better Finance and VEB, and issued press releases on 6 February 2015, urging the Commission to disregard ESMA's advice in this area and make sure that the final rules respect the original goals for protecting consumers as agreed in the Level 1 legislative texts.

PRESS RELEASE
› Finance Watch calls on Commission to ignore industry-biased ESMA advice on inducements in MiFID II
6 February 2015

GREEN PAPER ON RETAIL FINANCIAL SERVICES

In December 2015, the Commission published a Green Paper on retail financial services aimed at making it easier for citizens to buy financial services from firms in other EU member states. The follow up to this paper is likely to dominate the EU's work in retail financial services area for the immediate future.

The paper addresses mainly cross border barriers, which mostly affect fewer than 3% of EU citizens who live in another member state than that of their nationality, or where they work. A more ambitious legislative agenda is needed to strengthen consumer protection, a view that Finance Watch shares with the three European Supervisory Authorities (EBA, ESMA and EIOPA), who wrote to the Commission in January 2016 asking the Commission to use its green paper to help them protect consumers.

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

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

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

Panel discussion with MEPs at Finance Watch conference on 17 November 2015

We are now working with Members via a dedicated Working Group to coordinate civil society responses, and have nearly tripled our direct lobby activity on retail issues, holding 28 meetings with policymakers on retail issues in 2015 versus 10 the year before.

FINANCE WATCH'S VIEW

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

CONFERENCE - "CONFIDENCE, ETHICS, AND INCENTIVES IN THE FINANCIAL SECTOR"

Brussels, 17 November 2015, Hotel Leopold

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

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

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

"What explains why, eight years after the most severe crisis for 80 years and after five years of financial reform and thousands of pages of legislation, we have not managed to comprehensively integrate the lessons from the crisis, whereas the political momentum for financial reform is closing and we are going back almost to business as usual and to the failed mantra of deregulation for growth?"

Frédéric Hache

Robert Jenkins, a former member of the Bank of England's Financial Policy Committee, gave a compelling closing keynote speech, spelling out the regulatory reforms that could align to bank structures, incentives and accountability with the public interest, such as higher bank capital, and listing nearly 50 banking and financial misdeeds have emerged in recent years (the list has since become a favourite on social media and grown to more than 80 misdeeds, as of March 2016).

"Today's theme is Confidence, Ethics and Incentives. I have responded with capital, accountability and courage. Unless we address leverage we cannot have confidence in the resilience of the system. Without better behaviour we cannot have faith in the market that underpins it. Without penalizing the perpetrators and their seniors we will not get better behaviour. And without greater courage from policy makers and regulators, we will get none of the above and more of the same. Ladies and gentlemen, when timidity triumphs, the taxpayer pays. Alas, timidity is the order of the day."

Robert Jenkins

Speakers:

› Sirpa Pietikäinen MEP (EPP, Finland)
› Anneliese Dodds MEP (S&D, UK)
› Joost Mulder, Head of Public Affairs, Finance Watch (moderator)
› Christophe Nijdam, Secretary General, Finance Watch
› Frédéric Hache, Head of Policy Analysis, Finance Watch
› Jeroen Hooijer, Head of Unit on Company Law, DG Justice, European Commission
› Sue Lewis, Chair, UK Financial Services Consumer Panel
› Michael Budolfsen, President, UNI Europa Finance
› Nicoletta Dentico, Board Member, Banca Popolare Etica
› Professor Paul Dembinski, University of Fribourg, Observatoire de la Finance (moderator)
› Robert Jenkins, formerly member of the Bank of England's Financial Policy Committee; Adjunct Professor of Finance, London Business School; and Senior Fellow at Better Markets

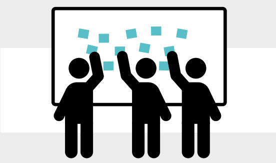
[3] Kastner, Lisa (2015) "Case Study 2: Representation of Diffuse Interests in PRIIPs/KID" in "Restraining Regulatory Capture: An Empirical Examination of the Power of Weak Interests in Financial Reforms"

CITIZENS' DASHBOARD OF FINANCE

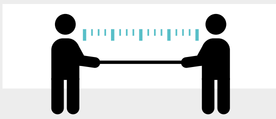
TOOL FOR CHANGE

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

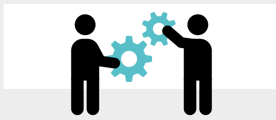
The "Citizens' Dashboard of Finance" is a unique civil society project that aims to answer the question: is finance serving society? Its purpose is to fill a gap in the official response to the financial and economic crises, by defining what society itself wants from the financial sector, measuring how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



Define
what society wants from the financial system



Measure
how well the financial system is meeting those needs



Change
the financial system to make it serve society

The prototype of the Dashboard, now online, was developed by more than 30 civil society organisations, led by Finance Watch, over the course of two years.

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

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

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

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

$20

TRILLION STRANDED ASSETS
Experts reckon that $20 trillion worth of fossil fuel reserves need to be written off if we are to avoid catastrophic climate change

€ 1.454

TRILLION EU ENERGY EFFICIENCY INVESTMENTS NEEDED
IEA estimate of total investment needed in EU buildings and industry by 2035, double current trends

1,700

1,700 LOBBYISTS IN BRUSSELS
There are 1,700 financial industry lobbyists working in Brussels alone

99%

OF TRADING IS POINTLESS
99% of trading is pointless, according to Vanguard founder John Bogle

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

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

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

AND MANY MORE

RECRUITING!

We already have nearly 30 civil society organisations on board, including consumer groups, trade unions, environmental and other NGOs.

A PROJECT BY AND FOR CIVIL SOCIETY

The project is open to new civil society stakeholders who can help us to develop the vision, propose indicators and find imaginative ways to use the Dashboard data in campaigns to bring change.

We are also looking for:

› academics and experts to join a separate and fully independent scientific committee to verify the data sources;
› policymakers who can promote the use of indicators chosen by civil society in impact assessments and other areas of policy-making; and
› pioneers from the worlds of businesses and finance to showcase change ideas in action.

And most importantly, we are looking for funders to help us develop the project.

www.citizensdashboardoffinance.org

The project evolved in 2015 with help from the Steering Committee: Nordic Financial Unions, Fondazione Culturale Responsabilità Etica, Housing Europe, Veblen Institute, 2 Degrees Investing Initiative, ShareAction, Friends of the Earth Europe, SOMO, Attac France, and the European Financial Inclusion Network. The website was designed by Atelier Design sprl, Brussels.

PART 03

PART 03

FINANCIAL REPORT

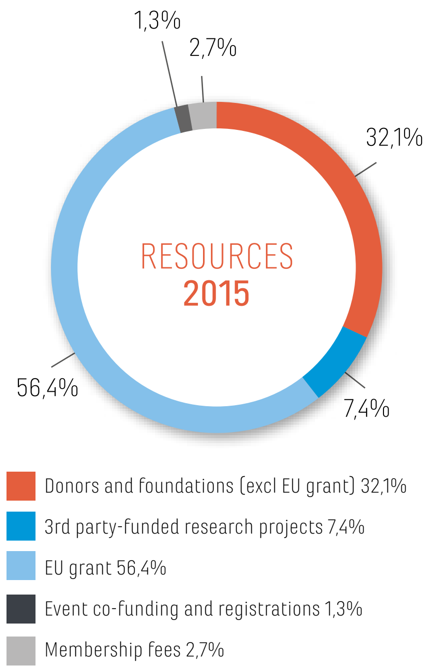
Resources and expenses 1 January to 31 December 2015

Finance Watch's long-term fundraising strategy is to have diversified, stable, sustainable and independent funding from a balance of institutional sources (charitable foundations and public grants), as well as donations from the general public, membership fees and other income. We also aim to strengthen our cash flow and seasonal working capital situations. Progress towards these goals has slowed over the past year as interest in financial reform has declined in relation to other societal priorities. We thus need the increased financial support of all our friends in this transition phase.

Audited resources 2015	*in euros*
Membership fees	40,911
Donors and foundations	1,355,348
Adessium Foundation	223,881
Fondation pour le Progrès de l'Homme	51,546
Donations by private individuals	29,516
Better Markets	103,104
Open Society Initiative for Europe	42,798
Open Society Foundations New Executives Fund	5,106
DOLFINS	24,901
ENLIGHTEN	11,068
EU grant	863,428
Event co-funding and registrations	20,581
Groupe Up	5,000
Heinrich Böll Stiftung	8,477
Conference registrations	7,104
3rd party-funded research projects (Hans Böckler Stiftung)	113,888
Total Resources	**1,530,728**

Resources for 2015 were €1,530,728, down 17% (- €307,061) on 2014 (€1,837,789) as a key funding programme came to a close. The decline comes mainly from a planned but steep 55% reduction in funding from the Adessium Foundation (- €184,268), whose support was provided as "seed funding" at the time of Finance Watch's start-up in 2011-2012 (and exceptionally extended to 2013-2016), and a corresponding 14% fall in the EU grant (- €141,262), which is provided on a matched basis and was lower due to lower spending.

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



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

Finance Watch's largest source of funding, the EU grant, represented 56.4% of resources in 2015 (up from 54.7% in 2014). Including the EU-funded DOLFINS and ENLIGHTEN programmes, the total funding that Finance Watch received from the EU was €899,397 in 2015, down 10% (-€105,293) from the previous year (€1,004,690).

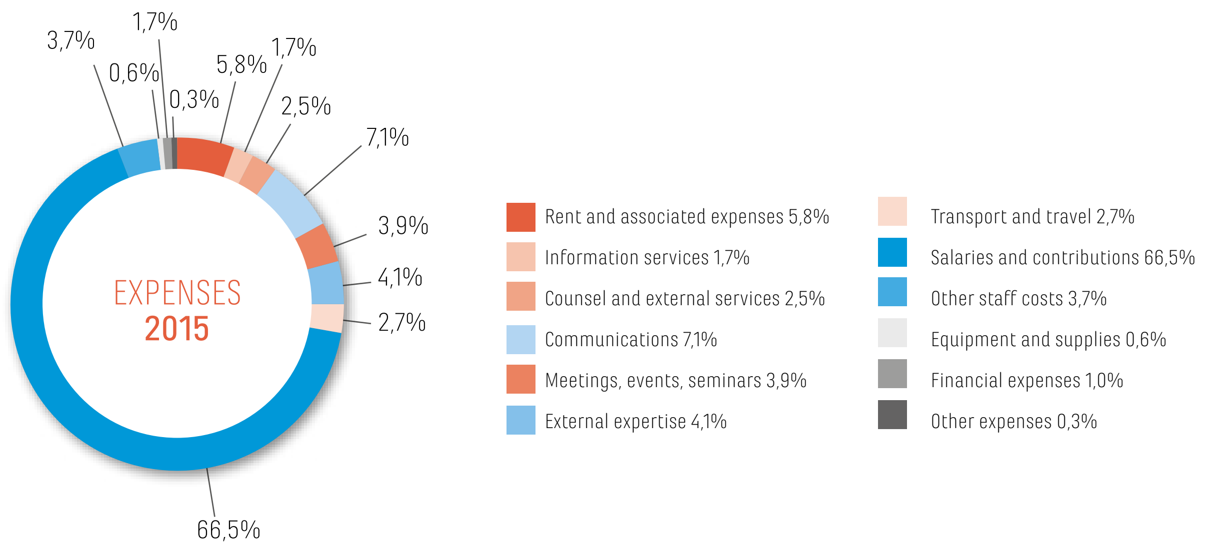
Funding from donors and foundations (including DOLFINS and ENLIGHTEN) and 3rd party funded research projects was 39.5% of resources in 2015, or €605,808 (down by €171,099 from 42.3% of resources, or €776,907, in 2014). Importantly, as mentioned above, the EU grant comes as "matched funding" – covering a maximum of 60% of our expenses in 2015: this mechanism means that if our non-EU funding dropped to zero, we would not receive anything from the EU grant.

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

The main changes compared to 2014 spending were increases in staff costs (€68,572), communications (€28,910), and financial expenses (€11,134), and decreases in rent (- €43,508) and counsel and external services (- €31,292). Other operational expenses (transport and travel, equipment and supplies, information services) were collectively 18% (-€19,785) lower than in 2014.

The largest expense remained staff costs, which accounted for 70.2% of the total (including pensions and insurance), up from 67.5% in the previous year. This reflects the fact that Finance Watch's main asset is the expertise and knowledge of its staff. Rent and associated costs were 29% lower than the previous year (€149,163 in 2014) following the move to self-managed offices part-way through 2014. The final operating result for the year was an accounting deficit of €299,114.

Audited expenses 2015	*in euros*
Rent and associated expenses	105,655
Information services	30,665
Counsel and external services (translation, lawyer, accountant, auditor, IT support...)	46,133
Communications (agencies, web and social media, print, PR, fund-raising)	129,999
Meetings, events, seminars	72,212
External expertise	75,823
Transport and travel	49,804
Salaries and contributions	1,217,237
Other staff costs (pensions and insurance)	67,240
Equipment and supplies (subject to depreciation)	11,832
Financial expenses	17,779
Other expenses	5,464
Total Expenses	**1,829,842**



PUBLIC AFFAIRS

Summary of meetings	European and national parliaments	Member state officials and politicians	European Commission, ESAs, ECB	Industry meetings	Others (students, academics, NGOs)	Total
Markets and asset management (MiFID, CMU, Securitization)	39	13	20	24	9	109
Banking (bank structure, Banking Union, CRD IV)	14	2	2	5	2	25
Retail and consumer issues (PRIIPs, MiFID, Green Paper)	7	5	3	4	9	28
Better Regulation	13		3	2	5	23
Other (lobbying, deregulation, TTIP, ethics, climate)	8		4	2	10	20
Total	**81**	**20**	**32**	**37**	**35**	**205**

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.

OVERVIEW

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

Following the relatively low number of meetings due to the legislative break in the election year 2014, our engagement with MEPs, Member States and Commission returned to the usual level in 2015. In line with our strategy for 2015, we increased our exposure on Capital Markets Union, retail financial services, the implementation of MiFID and PRIIPs. We also had many meetings on the rather unexpected but significant Better Regulation package.

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

EUROPEAN UNION POLICY TOPICS

› Capital Markets Union
› Securitisation
› Call for evidence on the EU's regulatory framework for financial services
› Stocktaking of financial regulation
› Bank Structure Reform
› Bank bail-in
› Bank capital
› MiFID II Level 2
› PRIIPs Level 2
› Green paper on retail financial services
› Better Regulation
› TTIP
› Climate and finance

SPEAKING AND EVENTS

In 2015, Finance Watch staff attended more than 130 external public events in 20 European cities. Our staff appeared as a speaker at 32 of these events, as panellists at a further 30 events, and participated in 16 external workshops.

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

› "Confidence, ethics, and incentives in the financial sector", 17 November 2015, Brussels (see page 35)
› "Finance and Climate: How to shift the model?" 5 November 2015, Paris (see page 32)
› "The long term financing agenda – the way to sustainable growth?" 4 February 2015, Brussels (see page 25)

HIGHLIGHTS OF 2015

"Since its creation in 2011, Finance Watch managed to bring other views in the political debate around financial regulation, thereby getting better balanced European legislation and helping restore citizens' trust after the financial crisis."

Olivier Guersent, Director General, DG FISMA, European Commission

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

BANK STRUCTURE REFORM
the ECON Committee's rejection in May 2015 of a report that would have significantly reduced the ambition of the reform (see page 28)

MIFID II LEVEL 2
increased political pressure to tighten rules on position limits for commodity derivatives led to draft rules being sent back to ESMA for revision (see page 31)

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

STOCKTAKING AND CHALLENGES OF EU FINANCIAL SERVICES REGULATION
Finance Watch used this Parliament report and hearing to reject the fallacious idea of a trade-off between regulation and growth and jobs, a message we repeated in our response to the Commission's call for evidence on EU regulatory framework for financial services (see page 18)

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

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

POLICY ANALYSIS

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

TECHNICAL INTERVENTIONS

14 December 2015
Report "Capital Markets Union and STS Securitisation Q&As"

15 October 2015
Letter to the Financial Times on bank business models and the EU's prosperity

7 October 2015
Consultation response to DG FISMA on the possible impact of the CRR and CRD IV on bank financing of the economy

17 August 2015
Consultation response to second ESA Joint Committee's consultation on PRIIPs

16 June 2015
Statement at ECON hearing on Stocktaking and challenges of the EU Financial Regulation

8 June 2015
Statement at EC conference on Capital Markets Union

13 May 2015
Consultation response to Commission Green Paper on Capital Markets Union

13 May 2015
Consultation response to Commission consultation on framework for simple, transparent and standardised securitisation

4 May 2015
Consultation response to EBA consultation - The Future of the IRB Approach

23 March 2015
Report "Capital Markets Union in 5 questions"

16 March 2015
Policy Brief "Separating universal banks from too-big-to-fail banks (TBTF)"

16 March 2015
Report "Separating fact and fiction": debunking myths about bank structural reform

2 March 2015
Consultation response to ESMA consultation on MiFID II/MiFIR Technical Standards

27 February 2015
Consultation response to EBA consultation on criteria for determining the minimum requirement for own funds and eligible liabilities (MREL)

17 February 2015
Consultation response to first ESA discussion paper on PRIIPs Level 2

13 February 2015
Consultation response to BCBS/IOSCO consultation on simple, transparent and comparable securitisations

3 February 2015
Consultation response to FSB consultation on Adequacy of Loss-Absorbing Capacity of Global Systemically Important Banks in resolution (TLAC)

14 January 2015
Consultation response to EBA consultation on simple, standard and transparent securitisations

9 January 2015
Consultation response to BCBS consultation on corporate governance principles in banks

HIGHLIGHTS OF 2015

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

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

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

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

Securing our previous wins from Level 1 work on PRIIPs by responding to Level 2 consultations (see page 34)

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

> *"Finance Watch is an important voice on the objectives to strive for sustainable financial markets and a banking system that is robust, efficient and responsible in its risk taking. I welcome the contributions by Finance Watch to Commission initiatives and its efforts to foster dialogue on these crucial subjects"*
>
> **Jeroen Hooijer, Head of Unit on Company Law, DG Justice, European Commission**

> *"Finance Watch combines the necessary technical skills and broad industry experience with ethical principles to which all actors involved should adhere to."*
>
> **Paul Embrechts, RiskLab, ETH Zürich**

COMMUNICATIONS

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

MATERIALS FOR THE GENERAL PUBLIC

3
WEBINARS
on securitisation, Capital Markets Union, and Level 2 rulemaking

27
BLOG ARTICLES
on topics including fossil fuel divestment, crowdfunding, microcredits, liquidity, bank structure reform, Better Regulation and Capital Markets Union

17
EXTERNAL ARTICLES (OP-EDS) AND OPEN LETTERS
published in Frankfurter Rundschau , Le Nouvel Economiste and Financial Times, among others

1
ONLINE EDUCATIONAL UNIT,
"Understanding Finance #3: What kind of financial markets do we need?"

8
CARTOONS

10
FRIENDS' NEWSLETTERS,
available in English, French and German

21
NEW VIDEOS

24,600
YOUTUBE VIEWS

SOCIAL MEDIA AT THE END OF 2015

9,660
FRIENDS (up 14%)

6,550
TWITTERS FOLLOWERS
(up 24% on the previous year)

18,149
FACEBOOK FOLLOWERS
(up 22%)

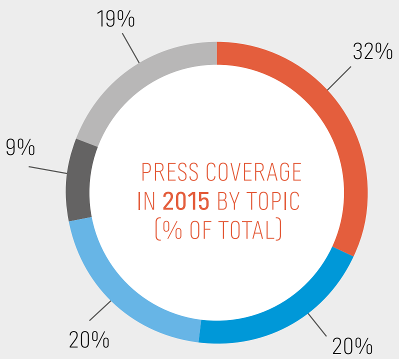
PRESS COVERAGE IN 2015

146
INTERACTIONS,
with journalists from 116 media outlets, including Canal+, 3sat, Financial Times, Politico, France Culture, AFP, Le Monde, Les Echos, and Trends-Tendances and others

226
ARTICLES AND BROADCASTS IN THE EUROPEAN MEDIA,
including 185 unique items and 41 duplicates

13
PRESS RELEASES
achieving around 7,000 views each

1
BREAKFAST BRIEFING,
with Italian correspondents in Brussels in early June 2015



- CMU and securitisation 32%
- Bank structure reform 20%
- Finance Watch & Lobbying 20%
- Financial marktes (MiFID, liquidity) 9%
- Others 19%

REUTERS

Reuters, 21 May 2015
"EU TOLD RULES ON COMMODITY PRICE SPECULATION RISK LOSING THEIR TEETH"

Der Tagesspiegel, 5 May 2015
"TRENNBANKEN-IDEE VOR DEM AUS"

Vanity Fair, 17 July 2015
"DÉFI D'INITIÉS - FINANCE WATCH, DES SUPER-HÉROS EN COSTUME-CRAVATE"

MEMBERSHIP, OUTREACH AND EXPERTISE COORDINATION

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

MEMBERSHIP (AT 31 MARCH 2016)

75 Members, including 48 civil society organisations and 27 expert individuals

40 meetings with potential new Members during 2015

8 new Members in target countries Italy (FABI, First Cisl, Fisac CGIL and MDC), Poland (Maria Aluchna, Marta Götz and Krzysztof Grabowski) and the Netherlands (Consumentenbond)

4 other new Members in France, Germany and Greece (Collectif Roosevelt, CJD, SÜDWIND, Emmanouil Tzouvelekas)

EXPERTISE COORDINATION

42 Members update emails

25 conference and video calls for all the Working Groups

5 Working Groups for Members: Capital Markets Union, Banks, TTIP, MiFID, and the Citizens' Dashboard of Finance

1 workshop hosted for trade union Members of Finance Watch in Brussels in March

1 joint statement signed by 30 Members on Capital Markets Union

OUTREACH

More than 12 speaking engagements at events organised by our Members and other civil society partners on financial reform, regulation, climate, lobbying and housing

4 workshops hosted as part of the "Representation of Public Interest in Banking" project in Brussels and London in June 2015, in Berlin in December 2015 and in Paris in January 2016

1 workshop hosted for environmental organisations on Climate and Finance in Paris in November 2015

Around two dozen meetings of the Better Regulation Watchdog

Speaking at 7 stakeholder and civil society events on TTIP

7 conference calls and a meeting in Ankara (Turkey) on the international regulation of finance alongside the G20 finance ministers' meeting

5 meetings of the Transforming Finance platform in the UK

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

CITIZENS' DASHBOARD OF FINANCE

Second civil society workshop hosted on the Citizens' Dashboard of Finance in April 2015

PRIORITIES FOR 2016

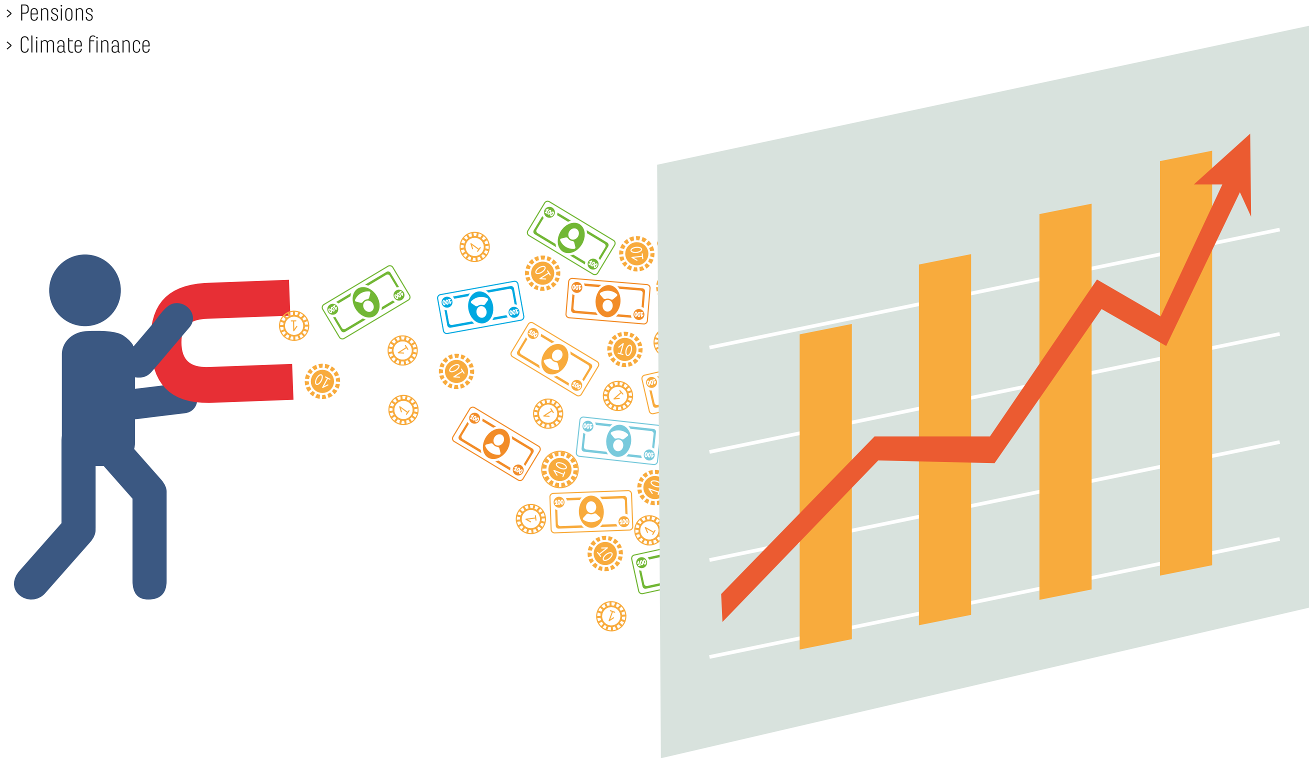
Finance Watch's Members approved the 2016 work programme at the 18 November 2015 General Assembly. This is the final year in Finance Watch's strategic plan for 2013-2016. A new strategic plan for 2017-2019 is being developed in the course of 2016.

FINANCE WATCH IS PRIORITISING THE FOLLOWING LEGISLATIVE AND POLICY AREAS IN 2016:

- Securitisation and capital rules
- Other proposals within the Capital Markets Union workstream (crowdfunding, Prospectus Regulation)
- Bank structure reform
- Leverage ratio and liquidity coverage ratio
- Trading Book Review
- Retail financial services
- Better Regulation
- MiFID II implementation
- Financial services in free trade agreements
- Pensions
- Climate finance

WE WILL ALSO WORK ON:

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



GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PRO-CYCLICAL
Term to describe economic or financial movements in the same direction that reinforce each other, such as banks' willingness to lend ever more in good economic times and tendency to turn off the tap in times of stress, increasing the amplitude of cycles. The opposite is 'counter-cyclical'

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

PUBLIC SAFETY NETS
Tools for public intervention to contain financial distress where private backstops are absent or insufficient. Includes access to unlimited central bank liquidity and deposit guarantee schemes

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

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

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

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

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

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

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

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

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

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

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

TTIP
Transatlantic Trade and Investment Partnership

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

Finance Watch

Making finance serve society

Rue d'Arlon 92
1040 Brussels

Tel: + 32 (0)2 880 0430
contact@finance-watch.org
www.finance-watch.org

Designed by Atelier Design (www.atelierdesign.be)