



## **COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA)**

### **FIFTH ANNUAL MEETING OF THE FINANCIAL SERVICES COMMITTEE**

**27-28 OCTOBER 2022, BRUSSELS**

### **JOINT REPORT**

The fifth annual meeting of the CETA Financial Services Committee took place in Brussels on 27-28 October 2022. Some participants also joined by video conference.

Canadian participants included officials from the Department of Finance Canada (Finance Canada), the Office of the Superintendent of Financial Institutions (OSFI), the Bank of Canada, the Financial Consumer Agency of Canada (FCAC) and the Canada Deposit Insurance Corporation (CDIC).

EU participants included officials from the European Commission's Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), the Directorate General for Trade (DG TRADE), the European Supervisory Authorities (the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority), the Single Resolution Board and the European Central Bank (ECB).

#### **Priorities**

The meeting began with a discussion on geopolitical and macroeconomic developments, including the market and financial stability implications of Russia's war of aggression in Ukraine. Additional discussion included an assessment of the post-Covid economic outlook and an update on international developments in the financial services sector. This was followed by discussions on digital finance and sustainable finance which are important policy areas for both sides. In the final session, both sides updated on their respective general regulatory and policy priorities including on banking, insurance, anti-money laundering (AML) and consumer issues.

#### **Market and Financial Stability Implications of Russia's War of Aggression in Ukraine**

Both sides condemned Russia's unprovoked and unjustified military aggression in

Ukraine, and agreed on the importance of close cooperation and coordination on

sanctions between like-minded jurisdictions, including in multilateral fora such as the G7. Finance Canada provided an overview of Canada's sanctions framework, and economic, military and humanitarian support to Ukraine. The Bank of Canada pointed to the risks to the financial system from cyber threats, a concern in the context of the war. The European Commission presented an overview of its response to the war, including the adoption of eight sanctions packages and the recently announced energy package to mitigate the impact of the rise of energy prices on European citizens and industry, while also maintaining financial stability. Despite the Russian aggression against Ukraine, the EU and Canadian financial sectors have remained resilient, due in part to the minimal exposure of their respective sectors to Russia and to the strong regulatory and supervisory framework which has been put in place after the global financial crisis.

### **Economic Outlook**

The Bank of Canada presented an overview of its 2022 Financial System Review<sup>1</sup>. The Canadian financial system has proved resilient throughout the Covid-19 pandemic but vulnerabilities have become more complex and risks have grown. Elevated levels of household indebtedness and housing costs, especially in the context of rising interest rates, are key sources of concern. The European Supervisory and Markets Authority (ESMA) provided an update on the risk outlook for the remainder of 2022. The main risk drivers include higher inflation, rising interest rates, weaker growth, a rise in already high public and private indebtedness and continued political risks.

### **International Developments**

Both sides reflected on the excellent relationship between the EU and Canada in international fora, including at the G20/G7, the Financial Stability Board, the International Association of Insurance Supervisors, and the Financial Action Task Force. Both sides reiterated the importance of coordinating to meet current and emerging challenges.

### **Digital Finance**

Participants exchanged updates on their respective approaches regarding digital finance, crypto-assets, stablecoins, decentralised finance, central bank digital currencies, outsourcing and third party relationships, and competition and BigTech in financial services. The European Commission updated on recent legislative developments in the EU including the Markets in Crypto-Assets Regulation (MiCA) which establishes a regulatory framework for crypto-asset services across the EU and the Digital Operational Resilience Act (DORA) which aims to strengthen the financial sector's resilience to information and communications technology related incidents. OSFI presented an update on Canadian priorities regarding outsourcing and third-party relationships and related guidelines. Finance Canada provided an update on the first phase of the 2025 financial sector review which focuses on the digitalization of money. The Bank of Canada and the ECB informed participants about their respective

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<sup>1</sup> <https://www.bankofcanada.ca/2022/06/financial-system-review-2022/>

exploratory work on central bank digital currencies. Participants noted their shared interest in many of the topics and look forward to continued close engagement both bilaterally and in multilateral fora.

### **Sustainable Finance**

Participants agreed on the importance of mobilizing private sector capital to support the net zero transition. Participants exchanged views on a range of topics including sustainable finance tools such as taxonomies and green bonds, multilateral cooperation, climate-related financial risk and ESG disclosures. The European Commission provided an update on the latest EU developments regarding taxonomy, on recent legislation on corporate reporting and disclosures and on the state of play of the EU Green Bonds Standard proposal, noting the need to advance rapidly in these areas. Canada provided an overview of its Green Bond Framework, which was adopted in February 2022. The Bank of Canada presented the results of its pilot project on climate scenario analysis, as well as its upcoming work on further assessing transition and physical risks. The European Commission provided an update on the new ESG-related rules proposed as part of the October 2021 banking package, and on the sustainability reporting rules for corporates recently agreed by the EU co-legislators. The Canadian side provided an update on plans to establish the Canadian Sustainability Standards Board (CSSB) in 2023. Overall, the discussion highlighted a shared commitment to advance and accelerate international sustainable finance work.

### **Regulatory and Policy Priorities**

This session provided an opportunity to gain a deeper understanding of both sides' financial sector regulatory and policy priorities. On banking, the EU side provided an update of its implementation of the most recent Basel standards. There was an exchange of views on IBOR transition in the EU and the phase out of LIBOR, while the Bank of Canada presented a roadmap for the transition from the Canadian Dollar Offered Rate (CDOR) to Canada Overnight Repo Rate Average (CORRA). The European Commission also provided an update on the state of play of the Solvency II review and the forthcoming Listing Act initiative, as part of the EU's work on Capital Markets Union. Both sides updated on their strategic priorities related to anti-money laundering / countering the financing of terrorism (AML/CFT). Canada noted recently announced measures to accelerate and augment its AML/CFT and beneficial ownership regimes. There was a strong interest in further bilateral exchanges to share information on the proposed EU Anti-Money Laundering Authority and the design of a new Canadian agency on financial crime. Finance Canada spoke to its broader priorities for the 2025 financial sector review, and its work on insurance-based strategies to address large-scale natural disaster risks. OSFI presented its risk outlook and regulatory and supervisory responses to address the most pressing financial system risks. CDIC spoke to its main objectives of resolution readiness and re-enforcing trust in depositor protection. FCAC shared the results of its recent public-opinion research on open banking. Preliminary results demonstrate Canadians have low level of understanding of open banking and that regulatory consistency is key to adoption. FCAC also provided an update on implementation of its Financial Consumer Protection Framework and the

implementation of the National Financial Literacy Strategy, with interest from both sides on sharing further information on financial literacy initiatives.

### **Conclusion**

Both sides share the view that the CETA Financial Services Committee is an important forum to share knowledge on financial sector regulation and policies and to maintain and deepen the strong bilateral relationships. The next meeting is expected to take place in Q2 2023 in Ottawa. In the interim, officials will follow up bilaterally, as appropriate, on topics discussed in this forum.

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