

CSFI

CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

5 DERBY STREET
LONDON W1J 7AB

TEL: 020 7493 0173
FAX: 020 7493 0190

Brussels for Breakfast (32): A round-table discussion on EU regulatory issues, with Graham Bishop (grahambishop.com) held on Thursday, December 6, 2007, at the London Capital Club, 15 Abchurch Lane, London, EC4N 7BW.

The overwhelming themes of the month were regulation; the Lamfalussy review; and proposals around the Ecofin decision. Jean-Claude Trichet, as president of the European Central Bank at Ecofin, pointed to the need to safeguard financial stability. Cross-border convergence was crucial but a decentralised set-up with cross border co-ordination was the appropriate setting for that, he said. Trichet said the EU regulatory and supervisory policy process had not yet been sufficiently strengthened; nonetheless the ECB was broadly in line with the recommendations from the other EC institutions - but obviously the ECB has a particular interest in CEBS, the Lamfalussy banking committee. CEBS's standing is not commensurate with its role. It should be enhanced significantly. Central banks' role - the connection between central banks and surveillance authorities - was also important.

Mario Draghi, governor of the Bank of Italy and chairman of the Financial Stability Forum, made clear consolidation and increasing integration of exchanges and banks presented policymakers with new challenges. Until the recent crisis central banks lending at penalty rates to illiquid banks were uncontroversial; now they are not. Tommaso Padua Schioppa, Italy's economy minister, said in a letter: "It is now necessary and urgent to act decisively to enhance the European supervisory system. This applies in particular to the Euro area." A single regulator would require an amendment to the treaty, but there was a slim chance of getting a new one. Whatever we do has to be within the confines of the existing document.

CESR, the Lamfalussy securities committee, stressed there was a gap between an informal EU mandate, and the expectation that rules would be applied in the same manner – i.e. that there is a common rule book. Uniform supervisory behaviour should not be expected by market participants within the current framework.

CEIOPS, the Lamfalussy insurance and pensions committee, raised the issue over what natural tensions might arise between national objectives and a possible European mandate? CEBS proposes four steps to increase regulatory convergence: phasing out of options and national discretions; proper implementation of Lamfalussy structure in banking; the development of own initiative advice by CEBS; greater level 4 efforts to ensure consistent implementation.

And then what is the Commission proposing? Firstly introducing qualified majority voting for all committee decisions - thus making their decision-making mechanisms more efficient. Secondly revising the supervisors' national mandates to ensure they are required to contribute to regulatory convergence process at the EU level. In the end Ecofin decided that the overall experience of the Lamfalussy process was positive. It underlined the importance of "considering" including in the mandates of national supervisors a task to co-

operate within the EU; that the function of colleges of supervisors could be enhanced by the introduction of a set of common operational guidelines; request the level 3 committees to enhance the efficiency and effectiveness of the decision-making by introducing in their charters the possibility to apply qualifying majority voting "where necessary".

A speaker from the floor pointed to the two unfavourable presidencies coming up and an "Almighty battle". France, president in the second half of 2008, feels itself to be in a strong position right now, and wants to reverse the trend of legal changes in relation to securities and banking. The industry has been looking at ways to change the law to create systemic stability, and France, Italy and Spain feel that that has been an attack on their legal tradition, and they want a reversal of that. The main speaker said that the European socialists were planning to introduce major changes to the right to withdraw. The Council is becoming concerned about the parliament departing from the common position, in particular with regard to lowering the level of consumer protection, so that the consumer credit directive is still in serious trouble.

The main speaker said that on Basel II, the good news was that the US Office of Comptroller of the Currency had approved it - but that it would be three years before it really kicked in. Target 2, the payment system for central bank euro payments, had been launched - with Germany and Luxemburg in the first wave, "so it does matter". You can use your Target 2 money in collateral positions in Clearstream.

A White Paper on mortgages is expected on 19 December. Early repayments are the big issue. On securities, the Commission is launching infringement procedures on the transparency directive, including on the UK. The FT reports that the Commission is going to take action immediately over MIFID breaches. Charlie McCreevy, the Internal Market Commissioner, said: "I would not be surprised if some people were sued by banks or investors." On rating agencies, CESR has no intention of regulating them. On insurance - and this applies to banking too - the Commission has proposed modernisation of VAT treatment on insurance and financial services; an important step.

On the rest of insurance, Peter Skinner MEP, the European Parliament Rapporteur for the Reinsurance Directive, said at a conference in Frankfurt that the CEIOPS process on solvency must be finished in 2008 before a new European parliament. The main speaker said that the key thing was that if they were to miss the plenary vote in parliament in April 2009, it would be possible to re-open the whole discussion.

The European Federation for Retirement Provision voiced its concerns about the proposal for Solvency 2. The chairman said there were concerns about the deliberate extension of Solvency 2 to pension funds, and that a quantitative study had shown that, with the Solvency 2 rules, pension funds would have to increase assets by around 40% to 60% of liabilities. The person leading the Solvency 2 for CEIOPS said the development to the regime for pension funds should be different from the regime of insurers - pension funds' risk profile and balance sheet is different to that of an insurer.