

CSFI

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Brussels for breakfast (34): A round-table discussion on EU regulatory issues, with Graham Bishop (grahambishop.com) and Robert McLeod (MLex) held on Thursday, February 21, 2008, from 8:30-10:15am.

Competition policy in Brussels is pushing for an EU-wide financial services market, said the first speaker. The first half of 2007 was dominated by talk of the need to regulate hedge funds/private equity. In the second half of the year, the concern was sovereign funds. Moves are made using single market, trade and competition policies. He pointed to the ABN Amro takeover. The second speaker noted that over the next two years, the key issues were the revision of company law, accounting and auditing.

The first speaker then focused on McCreevy speeches. Financial innovation has increased opaqueness in the market. Several CEOs of large financial institutions are on record admitting they did not understand new products their firms were selling or buying. Regulators are behind in the knowledge curve too, the speaker said.

There is uncertainty about the size and location of risks. As the SocGen/ Jerome Kerviel affair had shown, no amount of regulation can shield a company completely from the activities of a rogue trader. In the autumn, there will be amendments to the Capital Requirements Directive (CRD). Another aspect to be looked at is whether colleges and supervisors could upgrade their crisis prevention framework.

The second speaker noted that the International Organisation of Securities Commissions (IOSCO) has addressed the subprime crisis. Its taskforce on subprime will publish final conclusions in May 2008. It is likely to say that financial institutions should make accurate and complete disclosure about level of exposure. Institutional investors and asset managers are encouraged to develop strict due diligence processes in their assessment. In the fourth edition of the BaFin Quarterly from Germany, there is a discussion on Basel II and the new CRD.

The second speaker turned to the McCreevy speech on internationalisation. Basel II embedded in our capital requirements directive is spreading quickly to many non-European countries. UCITS is the global standard for investment funds. IFRS is the world's accounting standard. Even Solvency II has drawn considerable interest from Tokyo to Moscow. The system for getting standards agreed and adopted in the US as a whole currently remains unsatisfactory.

He looked at the statement by SEC and Commission on mutual recognition in securities markets. They agreed that the goals of mutual recognition would be to increase transatlantic market efficiency. Regarding subprime, the SEC will be determining whether bank holding companies and securities firms made proper disclosure in their filings. Also significant accounting questions in subprime area. SEC will come forward with proposals

for new, more detailed rules under the new credit rating agency reform act.

The speaker then turned to various committee meetings. Ecofin, February 12: main result was VAT changes on services. The whole financial stability dossier will be the key topic of the informal Ecofin meeting in April. On banking, the Treasury Committee produced its report on Northern Rock, said the first speaker.

On Northern Rock, the second speaker said that the Commission has shown admirable, considerable and highly unusual restraint. The rescue aid clearance decision was reached quickly. There are several state aid precedents in the financial service sector, e.g. Crédit Lyonnais, Berliner Bank, and Banque Postale. The UK government will likely delay as long as possible any decision until, perhaps, the next election, he said. If the aid is illegal, it will have to be repaid, which can end up with the company being wound down.

The speaker turned to credit card fees and concern about surcharging. There are challenges being made on the Mastercard case. He said that he understand that an expedited review was being sought, he said. This should see a resolution in court within six months. The Commission would like to see the emergence of a European card to challenge Mastercard and Visa.

The first speaker said that the Single Euro Payments Area had been launched and the Commission produced a cost benefit study: €123bn gained from SEPA over six years. On securities, Tower Group has named five it expects to survive the exchange consolidation: NYSE, Nasdaq/OMX, London Stock Exchange, Chicago Mercantile Exchange, and Eurex. Turning to derivatives, a group of the largest banks – Barclays, Deutsche and Goldman – were working on Project Rainbow to compete with the derivatives exchanges. The key question is whether LCH Clearnet will clear those.

On insurance: Mr McCreevy made a speech on Solvency II. There are a number of key issues, such as group supervision, which remain to be agreed. It is crucial that member states reach agreement without changing the substance of the proposal. It is widely accepted that the current framework for group supervision is inadequate. The Committee of European Insurance and Occupational Pensions Supervisors. (CEIOPS) is looking at pension funds. It is only after the first fact-finding exercise has been finalised that it will be possible to better understand which solvency rules apply to the area of pension funds. The Commission made clear that Solvency II would only be applied to occupational pension funds if there were a clear case for doing so. On private equity, McCreevy underlines he does not intend to impose heavy-handed regulations.