

CSFI

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Brussels for breakfast (35): A round-table discussion on EU financial regulatory issues, with Graham Bishop (grahambishop.com) and Thomas Tindemans (White & Case) held on Monday, March 17, 2008, From 8:30-10:15am.

The theme of the latest month in Brussels was clearly financial turmoil and what to do about it. Within that, the same messages kept cropping up – the need for early warning systems, tighter regulation of ratings agencies and control of executive remuneration. The first speaker said the EU had finally realized it was a global player that had to take more notice on non-EU developments. About time too, the chair remarked. Before the meeting went into a detailed review the second speaker gave a perspective on the decision-making process.

It was revealing that the financial crisis took up just 30 minutes of a plenary session of the European Parliament which Charlie McCreevy, the international market commissioner, shunned in favour of Cheltenham racecourse. Clearly MEPs are not seen as the forum for debate or decision compared with Ecofin. Reasons for that may include the fact that few MEPs have a financial background, while the decision process tends to short-circuit detailed debates with pre-ordained outcomes. There is a wider context of the 2009 elections and selection of a new commission. A reduction in the number of MEPs and race for commission chairs will discourage any radical measures before then. Furthermore there will be a logjam of measures racing to get approval by an April 2009 deadline. Jose Manuel Barroso has indicated he wants a second term as president but it was highly unlikely McCreevy and Nellie Kroes, the competition commissioner, would get second terms in those jobs – if at all. It was too early to speculate on replacements.

The first speaker said the financial crisis had dominated events. The three Level 3 Lamfalussy committee on banking, securities and insurance issued a joint statement to the Commission laying out their priorities for 2008. They included delegation of supervisory tasks; self-regulation of credit rating agencies; financial conglomerates; and valuation of illiquid financial instruments. It is a sign they clearly mean business. Meanwhile the Commission issued proposals to the Council on financial stability. It said primary responsibility lay with firms but that supervision and co-operation should be stepped up. It also hinted at regulation of credit agencies if they did not improve the information they provided. It also wanted improved early warning systems and prompt and full disclosure of losses by financial institutions. The last point started a vigorous debate over the role of mark-to-market accounting. One member said it had contributed to the crisis while another said it was the least worst system and had no obvious replacement.

In a speech last month McCreevy highlighted an excess of liquidity looking for better real returns as a key cause of the crisis. However the speaker said this was the wrong diagnosis as the phenomenon was linked in Europe to an aging population desperate to

boost pension income. McCreevy had his own checklist of solutions notably: improving transparency; upgrading valuation standards improving capital requirements; and issues around ratings agencies and mark-to-market. He said he wanted to see the Capital Requirements Directive approved by April 2009. Barroso used a newspaper interview to rule out a pan-European regulator. The second speaker said there was ongoing tension between support for national regulators finding a consensus and calls for a central body to oversee regulation.

The March summit of the European Council highlighted the need to strengthen the tools and procedures for financial crisis management. It highlighted a Memorandum of Understanding on cross-border cooperation in financial crisis situations to be signed in the spring. It called for the development of early warning systems at the EU and international level, including strengthening the role of the International Monetary Fund. It echoed the Commission's view that prime responsibility for stability laid with firms, a point repeated by the Banque de France. The UK's Financial Services Authority, the Institute for International Economics, the US President's working group on financial markets and the IMF itself all weighed in. The issue of state aid was bubbling under the surface. The second speaker said eyebrows had been raised by the high deposit rates offered by Northern Rock. Meanwhile the Commission has opened an in-depth state aid probe into state support for German banks IKB AG and SachsenLB.

Elsewhere there had been development on the securities front. Markit Boat, which supplies MiFID-compliant trade reporting platform now took a quarter of the EU equity market. On insurance, McCreevy used a speech to warn that reform of solvency was long overdue. He acknowledged concerns over group supervision and group support regime and said he was determined to find a solution. However he said they were key aspects and warned against compromise agreements. One member said some states were opposed but not enough to block it. On asset management McCreevy used a speech in London to say he had no intention of sponsoring Solvency II proposals that would risk closing down defined benefit pension schemes.