

CSFI

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Brussels for breakfast (37): A round-table discussion on EU financial regulatory issues with Graham Bishop (grahambishop.com) and Barbara Matthews (US Treasury, Brussels). Held Thursday, May 22, 2008, at the London Capital Club, 15 Abchurch Lane, EC4N 7BW from 8:30-10:15am.

The first speaker began by explaining that the US Treasury Department had decided to re-establish a presence in Brussels only recently, after a lengthy absence. She added that this demonstrates the importance of the transatlantic relationship.

The speaker went onto say that the main areas which the US has been focusing on in Europe are: macroeconomic policy, financial services regulatory policy and terrorism finance (specifically the implementation of some US Security Council resolutions within the EU). Since last June, the Treasury has also been looking at Sovereign Wealth Funds.

One member asked when the US was going to bring out its new collateral rules for reinsurers. The speaker replied that the Treasury's current top priority was dealing with the current financial turmoil, but added that the blueprint had been drawn up for a change in the collateral rules. However, she indicated that the chance of this being implemented before the US election in November might not be that high. Nevertheless, she pointed out that some senators had already proposed legislation in the US which would implement parts of the charter.

Another member asked when the US would be introducing mutual recognition with the EU. The speaker said that the SEC is moving quickly on regulation across the board, adding that it had issued a statement two months ago laying out a roadmap for how it would reach mutual recognition. It is widely recognised that Australia will be the market that moves the fastest on this, she said, as it has already changed its laws to move in line with the US. However, she stressed that this did not mean that the EU would need to change its laws. She assured the member that the SEC was now committed to working towards mutual recognition with the EU and Canada.

The next speaker then began a round-up of events in Europe over the past month. He said the main topics of interest had been "Is the turmoil past?", "What was it?" and "What are we going to do about it?"

The speaker said that while the Bank of England said that they believe the end of the crisis is near, the IMF still sees continued risks and emphasized a need to avoid complacency. At a recent speech, Trichet – who has been speaking out more in public than Commissioner McCreavy recently – said that the ECB had issued warnings in the run up to the crisis, but no one had paid any attention, and the ECB had taken no action. Trichet also emphasized the need for an increase in transparency and a reduction in pro-cyclicality.

The speaker said that the banks were now too big and too inter-connected to be able to fail, pointing out that when Drexel collapsed in the 80s, it wasn't so inter-connected so could just be sold.

The speaker then drew the members' attention to a recent 50-page analysis of the recent turmoil, created by UBS. The report pointed out that two-thirds of UBS's losses were on the CDO desk.

Moving onto what must be done in the wake of the crisis; one member asked whether the speakers believed Basel II would be amended. The first speaker said the Basel committee is already working on changes. The second speaker warned that there was a danger that Basel II could end up being too risk sensitive.

The second speaker then pointed out that in another recent speech, Trichet had said that the ISB still needs to take urgent action to increase disclosure of off-balance sheet activities, and that guidelines should be issued by the middle of this year.

At an ECOFIN meeting on May 14, the speaker said a very detailed 12-page roadmap for reform had been unveiled, with plans to implement on the proposals by the end of 2008 or middle of 2009. The speaker said he was concerned that these targets were over-ambitious.

There was some discussion about what "stability" really means, given that this has become the aim of much of the new regulation.

Outside the EU, the speaker pointed out that Japan and South Korea have decided to launch their own stability forum. While back in Europe, he said Target 2, which launched in November 2007, is now fully operative.

Elsewhere, the speaker said CESAR has been urging the EC to create a regulatory body for the ratings agencies, and take the view that if it can't be done internationally, it should be done within the EU immediately. The first speaker said the SEC's work on rating agencies, and the work done by IOSCO would be the basis for any EU regime. One member said the regulations should be about governance – not prescribing what models agencies should use.

In the insurance market, the second speaker said there had been some agreement that the US and EU needed to establish a forum to discuss insurance and reinsurance markets and regulation. One member said that it was extraordinary that no one had been talking about the private reinsurance market, given how crucial its role was during financial crises.

The speaker said the CEA had been concerned by some of the draft advice. One member said that there was nervousness amongst some supervisors that they will be stripped of their powers.