

# CSFI

## CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

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### **Brussels for breakfast (38): A round-table discussion on EU financial regulatory issues, with Graham Bishop ([grahambishop.com](http://grahambishop.com)) and Nicolas Véron (Bruegel) held on Thursday, June 26, 2008, from 8:30-10:15am.**

While not a financial issue the Irish 'no' vote hangs over Brussels and the French presidency of the EU. One positive side-effect may be that if the Treaty is lost then the next Commission president will be appointed rather than elected by MEPs, which increases Barroso's chances of staying on. More crucial is who replaces Charlie McCreevy. The speaker said there was an interesting power play going on. Two reports - the Rasmussen report on hedge and private equity funds and the Van Den Burg report on prudential supervision – were going through Parliament under a rule 39. This device calls on the Commission to respond and is effectively a way of ensuring the issues are put before the next Commission that takes over in 2009. The speaker foresaw the possibility of the designated new commissioners being asked if they signed up to the conclusions of the reports. If they answered yes, that gives MEPs huge leverage; if no, MEPs could pressure for their removal as they did with Rocco Bottiglione.

There were a number reports on the financial turmoil. The Financial Stability Forum updated its progress towards achieving its five goals within 100 days. A full report is due on 29 September. IOSCO's final report on subprime highlighted inadequate technical and human resources at some banks. One member said there were parallel plans to beef up the work of audit inspection units looking at how auditors assessed companies such as First Century and Bear Stearns. The ECB's financial stability report indicated the full extent of losses might be less than appear now, allowing banks to write-backs assets. ECB member Bini Smaghi indicated it would like a duty of co-operation between banks and the ECB while colleague Gonzalez-Paramo hinted that banks offering collateral to the ECB were taking a haircut on non-standard terms.

The speaker highlighted the creation of the International Centre for Financial Regulation, an independent think-tank funded by major banks, the UK Treasury and Corporation of London and run by Standard & Poor's European MD Barbara Ridpath. Its aim is to promote the UK's principles-base deregulation; provide training in the City; and to commission research into regulation.

France has set out a lengthy shopping list for its six-month presidency of the EU that begins on 1 July. The second speaker said its four big issues were non-financial – defence, environment, agriculture and immigration. He said Christine Lagarde, the finance minister had flagged supervision as a big issue a year ago but that was no longer on the radar. In its place she now wanted "registration not regulation" of credit ratings agencies. This might have a positive effect of "grandfathering" the eight on the US's Nationally Recognized Statistical Rating Organisation list and expanding the universe by attracting some European ones.

Meanwhile McCreevy had dropped a bombshell on ratings agencies. In a speech in Dublin he described IOSCO's code of conduct for agencies as a "toothless wonder" and insisted "a regulatory solution at European level is now necessary". The second speaker said this was an example of an area where the political timetable in the run-up of European Parliament elections and the end of the term of the current Commission could combine with the fast-moving financial turmoil to produce hasty decisions on major issues. Another example was banking supervision where the consensus - clarifying level 3 committees' status, convergence of national supervisors and legal backing for supervisory colleges - could be upended by politicians seeking short-term advantage.

June's Ecofin meeting covered the main issues of clearing and settlement, CESR, and Solvency II but the most interesting one was a discussion of deposit guarantee schemes. The second speaker said this was an issue that needed lots of technical work but was at risk of France pushing for early conclusions that would be premature. So far McCreevy is holding the line. On banking McCreevy said he did not see the need for any more regulations governing e-commerce. On the issue of account switching the UK, which is ahead of Europe on this, was in danger of finding regulations imposing it because of the tardiness of others, the first speaker said. He highlighted the launch of Project Turquoise in September as a sign of concrete movement post-MiFID and cited figures showing that the Prospectus Directive was having an impact.

On derivatives, the speaker said Euroclear's €470m acquisition of Finnish and Swedish central securities depositories gave it 65% of Eurotop equity markets and half of Europe's domestic debt market, putting the need for the ECB's T2S platform for cross-border and domestic settlement of securities in doubt. However the speaker said that as long as countries such as Germany and Italy were outside Euroclear the ECB would press ahead. One member said the "train had left the platform" and that a final decision was due on 17 July. The speaker briefly touched on insurance and accounting standards but, given pressure of time, it was decided to look at those issues at the next Brussels for Breakfast on 10 July.