

# CSFI

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**Brussels for breakfast (43): A breakfast discussion meeting on EU regulatory issues, with Robert McLeod (MLex market intelligence) and Graham Bishop (grahambishop.com) held on Tuesday, December 16, 2008, at the London Capital Club, 15 Abchurch Lane, EC4N 7BW, from 8:30-10:15am.**

There is only one way of putting it – the European Parliament (EP) could turn Socialist next year, the first speaker said. The centre-right European People's Party (EPP) is the largest party with 287 MEPs versus the Socialists on 217. But if the 27 UK Conservatives MEPs go ahead and leave the EPP and the Irish get wiped out at the elections that would bring them to 255. Assuming electorates in countries such as Germany (currently dominating by EPP parties) punish incumbent governments, then Socialists have a 50%+ chance of being the largest party. This is significant as it is that party that chooses the Commission President, which would spell the end of Barroso. It might turn out the UK Conservatives' decision on the EPP could be the deciding factor. The issue is confused by the debacle over the Irish vote on the Lisbon Treaty. Currently Parliament is being cut from 784 to 736 seats but Lisbon would keep the total at 784. Result – total confusion.

Another key 2009 issue will be the selection of a new Commission. Nellie Kroes will not stay on as Competition Commissioner now that Alexander Italianer, a fellow Dutch national, will be the DG. Given that Italianer is an economist rather than a lawyer to take the post, the focus will shift on who will take over as Commissioner. Stavros Dimas is a lead candidate after doing a good job at environment. Geoff Hoon is the head candidate as the UK Commissioner but the UK is unlikely to get Competition. Significantly Competition is adding 50 posts on financial services, taking people from the ECB and national Treasuries, as Kroes lays the groundwork for a larger role. The reason is an expected flood of anti-trust complaints against state-aided banks by others.

The second speaker ran through the wider financial services agenda. Charlie McCreevy reiterated his five-step plan for reform of financial services, focusing on disclosure, accounting standards, risk management, executive compensation and securitisation. He was clearly looking to co-ordinate efforts within the G20. Hans-Gert Pottering, president of the EP, called for a suitable legal framework for supervising the financial markets in a single European internal market adding that legislation could not wait until 2010. Since the EP has co-decision making powers this is a significant statement. One member said a push for the CESR to be made the entry point for hedge regulation was the short end of the wedge of making the three Lamfalussy committees – CESR, CEIOPS and CEBS - legal entities.

Meanwhile Jean-Claude Trichet of the ECB called for further improvements in plans for colleges of supervisors of banks. He said their effectiveness depended on their ability to facilitate decision-making for the banking group as a whole. He said recent events had underscored the need for swift decision-making, warning Europe could not afford to have a "cumbersome decision-making process in case of disagreements". The second speaker

said was the elephant in the room was the need to have a US dimension as it would not be possible to oversee, say, Deutsche Bank, without taking its US interests into account during any rescue effort. In a separate speech Trichet urged a greater focus on tackling macroeconomic problems such as imbalances. One member said this was another sign of an ECB/German unified stance against the Anglo-Saxon model and the “crude Keynesianism” of the UK response.

December's Ecofin meeting was unusually significant. It took decisions on several key areas. It set a €50,000 limit for the Deposit Guarantee Scheme to rise to €100,000 in 2011 and a shorter payout deadline of 20 working days with a possible extension to 30 days. It wanted harmonised reporting requirements for the Capital Requirement Directive (CRD) by 2011. It backed the decision to force issuers of securitised paper to retain 5% on their books. There was a vigorous debate over whether this would lead to an exodus on the industry. Some feared it would while others said issuers would find ways round the rule once it was set in stone. One member said a real danger was that investors' concerns – that they would end up suffering if it turned out a securitisation they held had breached the rule – had been overlooked.

Another key issue was Solvency II where Ecofin had dropped language on group support, which would allow integrated groups to move capital across subsidiaries, which the UK sees as SII's essential element. One member said it was worrying member states had looked at the idea of pooling sovereignty but stepped back. However the speaker said that did not mean Ecofin had decided against group support and he reassured members the EP would insist on group support while the Czechs, who take over the presidency in 2009, would reopen the issue. However the EP plenary vote is not until April 2009, the issue would go to the wire. On the Lamfalussy system, Ecofin reiterated the timetable that will lead to a Commission plan on pro-cyclicality by end-2009. A key moment will be the London G20 meeting when the US will turn up with an Obama Administration view. This could be the moment for an EU/US deal of reform that will give the process real momentum.

The first speaker came back to the issue of banks and state aid. He highlighted a decision of the UK Competition Appeals Tribunal to give legal standing to a group of Scottish business leaders who objected to the relaxation of competition rules over the Lloyds TSB/HBOS merger. That opened the door for any citizen to take any merger to the CAT. On the wider issue there would be a “bloody” battle as European governments that funded bank rescues pressed ahead with restructuring, as they are obliged to do after six months. Many rescued banks will be dismantled and other banks will be looking to acquire bits of them. The Commission's interest seems to be to see five or six pan-European banks emerge from the wreckage. The Commission sees successful restructuring as essential to ensure that, as it were, the current 1929, does not turn into the protectionism of 1930-33 nor the worse scenario of 1939-1945.

McCreevy made a major speech on hedge funds and private equity. He said he wanted a serious debate on hedge funds and wanted the results of his consultation to be followed up at a high-level conference in February and the results fed into the G20 process along with the review by the Delors group. There was relief for private equity. McCreevy said the industry was focused on investing in businesses and did not pose any significant risk to financial stability. However in a separate speech to mark a year since the Walker review of private equity fund disclosure in the UK he complained that only 32 out of 200 members had signed up while only 56 out of about 1,300 portfolio companies were reported to

comply with the rules. “These kinds of statistics are not going to impress any trigger-happy regulators.” However one member pointed out the 32 covered 80% of the market and the rest were small-scale venture capital companies not intended to be included in the Walker regime. If that was the case, another member said, perhaps someone should make sure Brussels understood that.