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Brussels for breakfast (44): A breakfast discussion meeting on EU regulatory issues, with Graham Bishop (grahambishop.com) and George Zavvos (European Commission, legal service). Held on Wednesday, January 28, 2009, at the City Marketing Suite, 80 Basinghall Street, London, EC2V 5BQ

The first speaker says there is a question of whether there will be a Treaty of Lisbon or not. One of the only benefits of the amazing slowdown is that public opinion in Ireland has shifted very quickly. He moves on to say that now on the radar for parliament, for ECON, is: Solvency II, CRD amendments, credit rating agencies, cross-border payments in Europe and electronic money. Turning to the Czech presidency programme – they will strive particularly at the G20 meeting to ensure the EU makes a coordinated contribution in the search for a solution at the European and global level. National reform programmes will take place in early 2009.

Speaker one ran through McCreevy's speech in Brussels on 27th January, when the gap between EU supervisory structures and market developments was discussed. D*e la* Rosière asked how to strengthen supervisory arrangements. The level 3 committees lack teeth; there's double talk and hypocrisy by the member states; all say action and then run away when there's something to be done; the member states must stand up against the vested interests of their own supervisors. The d*e la* Rosière group reports on 25th February, with the Commission's response due in early March. The Spring European Council will then agree a European position ready for the G20 on 2nd April. On the CRD, whatever is done now is ahead of a comprehensive review of the entire Basel II, and includes: the overall gearing, inappropriate risk weights for triple A structures, reliance on issuer pay ratings, and the absurdities of mark to market accounting when there's no liquidity.

The first speaker talked about Trichet's speech to ECON. Trichet recalled that the close relationship between the central bank and the banking surveillance authority was of the essence. He also reminded MEPs of article 105.6 of the treaty which explicitly mentions a possibility for the member states to decide to confer upon the ECB specific tasks in the domain of financial supervision.

The second speaker says setting up an agency could be done within the limits of an existing legal framework, e.g. for important issues of governance. But there are a number of questions: Would it cover institutions on a national or cross border level, or both? Would it cover the eurozone, or would it go beyond? What if some member states don't want to join this undertaking? You cannot have an autonomous agency, so therefore there is a limit on its powers. On agency governance, would member states have the upper hand or the Commission? As to what kind of powers an agency would have over national states/member states, it cannot give an authorisation, but it can delegate. Agencies cannot have discretionary power to decide. It could be possible that the agency would propose something to the Commission and then the Commission might make a decision.

Speaker one says the G30 came out with a report which includes: the implications of the lender of last resort, the need for greater international coordination, improving governance, risk management, regulatory policies, and improvement in transparency in financial infrastructure arrangement. The OECD says in a report that the euro area needs more centralised and integrated supervision of banks and financial markets. The Single Market Review one year on. Commission strategy for 2009 outlines a series of measures they have taken with regards to the retail sector. Bank account switching was agreed by the banking industry in November 2008 and makes it easier for customers to switch banks. Cross-border payments - that's going to be extended. There was a statement on the regulatory approach to bank capital made on 19th January, a day ahead of ECOFIN, which then broadly accepted this. The FSA talks about maintaining a core tier 1 capital of at least 4 percent after applying stress tests. The Council supports calls to modify international regulation to ensure the excessive procyclical consequences are mitigated. Hildebrand from the Swiss National Bank comes out strongly in favour of a simple leverage ratio, not replacing Basel II, but on top of it. Financial Services supervision: Basel committee broadens the mandate of its implementation group. The BIS consults on regulatory capital treatment for trading book exposures. Securitised products - the capital charges of the banking book would apply. The committee proposes to discontinue the preferential treatment of a 4 percent capital charge for specific risk of equities, currently applying to portfolios of both liquid and well diversified. As a result, an 8 percent capital charge for equities would apply in all cases. Credit rating agencies. You had the French council presidency proposal just before the end of the year. The EP has come out and commented on that. The EP adopted UCITS directive – formally it's got to be approved by council; takes effect from 1st July 2011. The CESR statement on the reclassification of financial instruments – CESR's giving views on fair value options, embedded derivatives etc.

Speaker one adds that Mary Schapiro (SEC Chair) spoke at her Confirmation Hearing. She will proceed with great caution in relation to IFRS. “I will take a big deep breath, and look at this entire area carefully,” she said, and underlined that she does not feel bound by the existing roadmap.