

Monsieur le Commissaire Michel Barnier

European Institute

Washington, 11 May 2010

Building a new financial framework together

Ladies and gentlemen,

1. The US and the EU: stronger together

I am honoured to be here today.

To share some views on US-EU relations. Specifically in relation to the financial crisis and our joint efforts to reform the global financial system.

This is my first trip outside Europe as Commissioner.

And it is right it should be to the United States.

A country I know well – and have great respect for.

I come here with the view that European cooperation with the US is more important than ever.

It is vital.

Not just to reform the financial system.

But also to face other, major and global challenges.

From climate change; to the food crisis; or nuclear proliferation; security and peace in the Middle East and other parts of the world.

The US and Europe, when we work together, and show leadership, we can make a real difference.

An essential condition to be effective together is that we have a balanced relationship. And that we are strong on both sides of the Atlantic.

That is why what happened last Sunday night in the EU is great importance to you too. Not only did our finance Ministers politically agree on unprecedented series of support

measures: political guarantees and loans, with the IMG, up to an amount 750 billion Euros. But also they showed, again, determination to act together. And strengthen the economic governance of the EU and euro.

2. Lessons from the crisis

This has been the worst economic crisis since the 1930s.

Both sides of the Atlantic were badly hit.

The crisis has highlighted how interdependent our economies are.

So we sink or swim together.

The EU and the USA have the largest bilateral trade and investment relationship in the world:

40% of world trade and over 60% of world GDP.

We must ensure that our financial systems act in the interest of the real economy. For ordinary people. For small companies.

I always say – financial markets must work for the economy – not the other way round.

We have an enormous collective, political responsibility.

We cannot afford to make the same mistakes again.

I believe we share the same objectives.

Neither Europe, nor the US can address these challenges alone.

The only way to succeed is to work together – bilaterally. But also in international fora. In the G20 and the Financial Stability Board.

We need strong leadership and determination to succeed. And the courage to take decisions which will not always be popular.

So are we on the right track?

Are we making sufficient progress?

3. What has already been done and what needs to be done: regulatory steps

Frankly speaking, it's not easy to create a new global financial framework. Why?

First, the legislative processes on both sides of the Atlantic are complex and sometimes slow.

But there are benefits to this.

Open, consultative processes help us get things right. These are complex areas: we need the right information to make decisions. To understand in order to act. But our approach also has disadvantages.

Our negotiations can lead to complicated compromises. And too many compromises can lead to the lowest common denominator being adopted. More worrying, financial markets move fast. Much faster than our political processes.

There is the risk of simply being too late.

Second, the issues we have to deal with are highly technical and complex.

To give an example: the reform of banking capital.

We have to be very careful with the calibration.

The economic impact calculations.

The timing.

I call it the double calibration – the scale of measures and the timing and sequencing of them. Triple calibration might actually be more appropriate: we also need to coordinate our approach and timing with the US.

If we do not get calibration right – we could choke the credit supply to the economy and halt the recovery. This is of great concern in Europe, where banks are the main suppliers and source of financing to the real economy.

Third, creating this global financial framework is not easy because we do not yet have an international consensus in some important areas.

For example:

- Macro-economic imbalances played a major role in crisis. They need correcting. But there is no international agreement on what to do.
- Or, 'Systemically Important Financial Institutions' (SIFIs).

Should we impose stronger supervision?

Require more capital?

Advocate size limitation?

Or prohibit certain risky activities?

We talk a lot about SIFIs, but there are no definite answers yet.

- A third example: the idea of bank levies and resolution funds is gaining political momentum.

We must not rely on taxpayers' money in the future.

The polluter should pay.

However, international convergence is desirable – otherwise we risk distortions. And regulatory arbitrage.

I support the idea of ex-ante resolution funds – which I call "*fonds de prévoyance*". I see them as a part of a comprehensive risk management framework. For example, to finance orderly resolution such as the creation of a bridge bank. Not bail-out funds.

And let me also briefly mention the issue of accounting standards. I appreciate that the US authorities have made progress towards convergence. But in the EU, we are getting impatient.

Going forward, it is crucial that we converge further.

4. Delivering the reform agenda

So 2010 and 2011 are crucial years.

2010 is the year of decisions and convergence.

2011 needs to be the year of implementation.

Political pressure to act remains high.

Citizens expect nothing less.

If we don't live up to our declarations – what is the point of the G20? Words without meaning? Mere intentions and no delivery? The whole credibility of the new G20/FSB order is at stake. Our credibility.

I believe Europe is on track in its reform process.

We have responded to the call from the G20 to take action to build a stronger, more globally consistent, regulatory and supervisory system for financial services.

Legislation to regulate credit rating agencies has been agreed and will come into force fully at the end of the year. Tackling conflicts of interests. And bringing more transparency to the existing situation. We may need to go further.

We made proposals on hedge funds and private equity a year ago. Final agreement is possible soon. But I will oppose any discriminatory outcome – as I said in my letter to Secretary Geithner.

As for our supervisory framework, our aim is for our new structure to be in place by the beginning of next year.

There will be three new European Supervisory Authorities for banking, insurance and securities markets. Working in tandem with the existing national supervisors.

At the same time, a new European Systemic Risk Board will come into being.

To better anticipate crises before they happen.

And provide macro-prudential risk warnings.

But supervision and new rules are not enough. Behaviour must change.

Corporate governance must be strengthened too.

Crisis prevention starts from within. Effective checks and balances within financial institutions would have helped mitigate the worst excesses.

For all the other G20 commitments, you can expect from me that I will table all my proposals within a year.

On derivatives, we are working very closely and very well with the CFTC. We have to – these are mobile markets.

The discussions in the US are a bit ahead of ours. And useful stimulation for us. I'm comforted that we share the same objectives.

We need far more transparency. As President Obama said only a few weeks ago, derivatives transactions must "take place in the light of day". We need greater standardisation of contracts.

Trade repositories to capture all the information necessary.

Compulsory clearing via regulated Central Clearing Counterparties.

And we need to make sure that all supervisors have access to this information, regardless of where they are in the world.

Only then can we make our markets safer.

I will present legislative proposals this summer.

This year we will also propose further amendments to capital requirements for banks.

These will reflect the latest thinking in Basel on more and better quality capital, liquidity standards, leverage ratios and pro-cyclicality.

For consumers, I want responsible lending practices and stronger guarantee schemes for deposits, investments and insurance.

And of critical importance - we are working on an integrated European crisis resolution framework.

We want common and credible European mechanisms.

We want new arrangements for financing resolution measures. I want to ensure that the financial sector bears the full cost of the past – but also future crises.

5. Working together

But as I said we cannot do this in isolation.

We have to reform together.

To avoid loopholes.

To avoid regulatory arbitrage.

To ensure a level playing field.

And to build a safer global macro-financial environment.

EU-US cooperation is working. We deal every day with the US authorities. This is the spirit of my visit to the US.

From time to time there may be frictions and misunderstandings. It happens. It is normal. And it can be sorted out.

6. Concluding remarks

Ladies and Gentlemen,

The world needs a new, safer financial system.

It can only come about if the EU and the US unite. And lead the way.

If we implement broadly equivalent reforms. Yes, there are differences in our markets, such as banking. But we share the same regulatory objectives.

It is why I am here today.

We must continue and deepen our cooperation.

To push for convergence.

Our window of opportunity is right now.

The longer we wait, the more difficult it will become to agree on these reforms.

Europe is determined. As you were able to witness, once more, last week-end.

I am hopeful.

Because I see the same determination in the US.

The world cannot afford another crisis like this one.

We must show the way forward.

In a spirit of openness, friendship, and mutual trust and understanding.

This is my vision and my conviction.