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"The Banking Union and integration in the single market"

Intervention during the Sopot financial forum

23 June 2014, Sopot

Is the Banking Union an opportunity for a stronger political integration of the European Union or a risk of disintegration?

Over the past decades, Europe witnessed a rapid pace of financial market integration. This process was enabled by far-reaching political measures at EU level meant to reduce regulatory obstacles to cross-border activity and promote a single market in financial services. The creation of the euro was a powerful catalyst in this sense. After 1989, we also slowly started witnessing a presence of Western banks and insurance companies in Central and Eastern Europe. These moves were driven by expectations of convergence between East and West and led to a surge in capital inflows in emerging Europe.

In spite of a strong process of financial market integration, as shown by a convergence of interest rates, integration remained uneven across countries and markets, as macro-financial, and, in particular, sovereign risks, were mispriced. In the eurozone, wholesale funding and bond markets made a leap in terms of integration, while retail lending markets remained largely restricted to national frontiers. Big credit institutions continued expanding abroad and increased the range of their activities. This increased their complexity and posed problems regarding their potential resolvability.

And then came the year 2008 and the crash of Lehman Brothers and financial integration turned into disintegration. Western banks reduced liquidity to the East, affecting emerging Europe. The cross-border nature of banking highlighted that problems emerging in one part of Europe could immediately translate into difficulties on the other side of the continent. The lines between euro and non-euro zone banks had been blurred and the problems of the home bank immediately translated into a problem for the subsidiary. Policymakers also became more aware than before of the tension between homes and hosts and realized that tools were needed to ease this tension. We had to make sure that decisions taken by the home bank, the

home supervisor or home resolution authority did not disregard spillover effects on the territory of the hosts and that the latter still had a say in decisions concerning their financial stability and fiscal soundness.

The eurozone itself was also revealed to be very vulnerable during the crisis episode. It soon became clear that we were confronted with a European cross-border problem for which no adequate cross-border policy framework existed. Lack of coordination between banks led to a simultaneous reduction of cross-border exposures, in particular in the eurozone, further fragmenting the financial system and disrupting the transmission channels of monetary policy. Europe witnessed a particularly severe collapse of cross-border exposures in the wholesale funding market and sovereign bond markets. This increased the vicious banking-sovereign link in the eurozone periphery.

It was evident that the road Europe was following would eventually lead to further financial disintegration, which would irreversibility shake the foundations of the single currency. Europe tackled this threat hands on. Responses came from the ECB and policymakers alike:

- The ECB did not stand on the side-lines:
    - The Central Bank, in an incredible drive to keep the single currency together, decreased interest rates to record lows and engaged in long term refinancing operations, providing cheap credit to eurozone banks, which in turn was supposed to reach the economy. The latter policy was less effective than desired and was subsequently complemented by negative interest rates on the ECB deposit rate and targeted long-term refinancing operations, which will ensure that part of the credit borrowed to banks is passed on to SMEs. Moreover, the ECB is now also looking into safely reviving asset backed securities, to further enhance credit growth.
    - Recent ECB research shows us that further integration has been achieved in both money and bond markets, although fragmentation is still lower than prior to the crisis. Turning to banking markets, only a limited degree of improvement relative to the peak of the sovereign debt crisis, in mid-2012, could be observed in the spring of this year. We can notice that some banks have resumed cross-border activities, but current levels are nowhere near pre-financial crisis levels. The wide disparity in borrowing costs for non-financial

corporations, SMEs in particular, continues to cast a shadow over Europe, and raise concerns about the effectiveness of monetary and macro-prudential policy.

- The improvements in banking sector integration are clearly also a result of the banking sector reforms we have seen over recent years:
    - These include the Bank Recovery and Resolution Directive (BRRD), which puts forward a harmonisation of national bank recovery and resolution strategies in the EU. The major reform however was that of the European banking union with its three components, the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the Single Deposit Guarantee Scheme (SDGS). The first two have been adopted and are due to be implemented shortly (the SSM in November 2014, the SRM as of 1 January 2015). No concrete plans for an SDGS have been put on the table yet.
    - To complement the banking union will come also the so called Liikanen reform, which aims to rethink the structure of the EU banking sector, looking into separating retail from investment activities. The new Parliament should start working on the January 2014 Commission proposal this fall.
    - The sector remains large both in absolute as well as in relative terms (42.9 trillion EUR and 350 per cent of the EU's GDP). The Union's largest banks' assets amount roughly to the GDP of their home countries. This brings us yet again to the too-big-to-fail, too-big-to-save and too-complex-to-resolve trio of problems. Some of the latter concerns will be addressed by the Liikanen reform.

It is evident that the banking union has worked wonders on EU financial integration and has had a significant contribution to Europe's return to modest growth. A single supervisor will considerably improve the oversight of cross-border banking groups, anticipate risks and deal with them early on. Should things get out of control and banks get into difficulties, the single resolution authority will then be empowered to act swiftly, ensure bail-in rules apply and offer the possibility of covering failure costs from the single resolution fund. This will substantially limit the reliance of eurozone banks on their sovereigns, thus breaking the vicious banking-sovereign loop, which added so much fuel to the crisis fire.

While increasing financial integration, particularly at the eurozone level, the banking union unfortunately also comes with afferent risks of political disintegration, which in turn risk spilling over into the financial realm. I have here primarily the tension between eurozone and non-eurozone member states, and implicitly also the home/host tension in mind. And of course, the problem of the UK, as the one member state which has clearly voiced its determination not to join the banking union, also comes to mind.

Over the coming minutes, I will focus on the euro/non-euro tension in the context of the banking union and the risks that the current setup poses for political integration in the EU. I will also touch briefly on the UK case and the risks that this particular case poses for political integration.

Both the SSM as well as the SRM are applicable to banks located in the territory of eurozone member states but open also to the participation of non-euro member states. As of yet, no non-euro member state has formerly stated its intention to join the banking union. We have recently heard promising news from Denmark however. A report on financial stability released this month states that with the overall structure of the banking union in place, the Danish central bank believes that its interests are best served by participating in the banking union and that the ultimate decision on participation is a political one. I hope to hear more such statements from the remaining non-euro central banks.

As many of the crisis driven reforms (the two-pack of economic governance, the European Stability Mechanism etc), the banking union is yet another eurozone focused project, which admittedly retains some openness towards the rest of the EU. This is not to say that the focus on the common currency area is not justified, but rather that we must be weary of the risks it generates. As we move towards deeper eurozone integration, we risk alienating non-euro member states who one day wish to join the union. We must remember that ultimately, the Union needs to cater to the interests of all its member states.

Defending the cause of non-euro euro member states and taking them on board in eurozone reforms has been a perpetual challenge. It was also the case of the banking union project. If we look back for instance at the initial proposal for the SSM, we will notice that the proposal was rather unbalanced from this point of view:

- From the outset, non-euro member states did not have an equal say in the decision-making process of the single supervisors. Due to the legal basis chosen, final decisions would be taken by the governing council of the ECB, composed of eurozone members only.
- There was also no possibility for non-euro member states opting-in to single supervision to leave the mechanism. While membership in the SSM should be irrevocable for eurozone member states, this does not make sense in the context of non-euro member states. This is due to the fact that eurozone member states benefit from the ESM as a fiscal backstop in case supervision decisions had a fiscal impact, non-euro members did not. Non-euro member states only have access to the Balance of Payments Facility (BoP), an outdated instrument which does not allow bank recapitalisations and which consists of financing borrowed by the EU on capital markets. There is a strong contrast between it and the ESM, which has many more instruments and consist of financing from participating member states as well as callable capital.

The SSM was made substantially more attractive for the participation of non-euro member states due to Parliament's involvement in the discussions. Parliament had two significant contributions:

- Parliament ensured for a greater impact for non-euro member states in the decisions-making process. Given the legal basis chosen by the Commission, it was impossible to grant non-euro member states equal rights relative to their euro area counterparts in the governing council, it was however possible to have the supervisory board (comprising euro and non-euro member states alike) present draft decisions to the governing council. This provision is part of the final text, according to which the supervisory board will present draft final decisions to the governing council. These decisions will then be deemed to be adopted unless the governing council objects to them within at most 10 days of their submission.
- Parliament, with the support of Council, also obtained the option of a non-euro area opt-in member state leaving the SSM (under the original Commission proposal only the ECB had the power to terminate the close cooperation). The opt-in may request a termination of its close cooperation with the ECB under the following circumstances:

- if three years after the publication in the official Journal of the European Union of the decision to establish the close cooperation have elapsed and provided the decision to leave the SSM is driven by potential significant adverse consequences regarding the fiscal responsibilities of these member states;
- it the supervisory board makes a decision, the governing council objects to this decision and the opt-in disagrees with this objection;
- if the opt-in is presented with a draft decision by the supervisory board, which it disagrees with, then the opt-in can put forward its objection to the governing council within five days of receiving the draft decision. The governing council will then make a decision about the disagreement between the supervisory board and the opt-in, taking into account the reasons behind it, and notify the opt-in within five days of its decision. The opt-in can then choose to terminate the close cooperation with an immediate effect and will not be bound by the decision.

Let me now turn to the SSM's natural complement, the SRM. The latter puts forward a single resolution board with a single resolution fund and applies to all banks covered by the SSM umbrella. It is thus compulsory for the eurozone and also open to the participation of non-euro member states which have entered into a close cooperation with the ECB.

The compromise agreement on the SRM once more reflects a good deal which is attractive enough for non-eurozone members to want to join. With the help of Parliament, the final deal is once more appealing than the original Commission proposal:

- So-called opt-ins are protected in the SRM in virtue of the fact that they have a say in the decision-making process when banks on their territory are concerned (whether their own institutions or subsidiaries of other home member states). Originally the commission had given all member states representing opt-ins one vote in decisions regarding cross-border resolution (the remaining votes went to the home member states, one vote, to the chair and vice chair of the SRM board, one vote each and to an ECB representative, again with one vote). This would have created an unbalanced state of affairs. In the final compromise, when cross-border resolution decisions are

taken, the national resolution authority of the member state where the home authority is based, as well as the national resolution authorities of the hosts, which have a subsidiary or entity covered by consolidated supervision on their territory, will also participate in decision-making. If the aforementioned members cannot reach a joint agreement by consensus, then the decision will be taken by simple majority by the executive director and the other four permanent members of the Board only. Thus homes and hosts are not allowed to vote anymore in the second round, making the process fair to the extent that the homes do not get to have a potentially biased vote in favour of the institutions based on their territory.

- A serious worry throughout the negotiations, from the perspective of potential opt-ins, was also the fact that they do not have a backstop in case the money in the single fund runs out (their euro counterparts could have potentially resorted to the ESM). The Commission did not address this worry in its proposal. In its final shape, the SRM will be allowed to have the single resolution fund go onto financial markets and borrow money. This in effect creates a common backstop which applies equally to eurozone and non-eurozone member states. For the borrowings in question, the banking sector will be liable for repayment by means of levies in all participating member states, including ex post. According to a statement of the Eurogroup and ECOFIN ministers of finance following the successful adoption of the SRM, as well as to ongoing work at the Economic and Financial Committee, non-euro area member states that are considering participating in the SSM are invited to take part in the discussions on the functioning of this borrowing arrangement.

As it stands, I believe that the banking union with its two existing pillars, the SSM and SRM is sufficiently attractive for non-euro members. I believe those committed to joining the euro one day should make the leap and join the banking union as soon as possible. Ideally, as many non-euro member states as possible would already signal their willingness to enter into a close cooperation with the ECB and would take active part in the discussions such as those on the borrowing capacity of the single resolution fund.

For the member states which have committed to adopt the euro, it would make sense to join the financial reform bandwagon sooner rather than later. Being inside the system from the start gives them a concrete say and smoothens their transition into the euro area. It also gives them the stamp of confidence of the ECB. While this would not sway a regular consumer

from moving their bank account from Wroclaw to Dresden, it might make all the difference for a bank bond investor pondering their next move. The deal on the table is too good for non-euro members to refuse.

Joining the banking union will not however be beneficial only for the opt-ins, but also for eurozone members and for the single market. It would certain benefit financial market integration as well as political and facilitate the easing of home/host tensions, as homes and hosts would be put under the same supervision and resolution umbrella. Without having the pre-ins on board, we will move further towards a two-speed Europe.

We must also remember that the challenge for the pre-ins will not end upon their joining the banking-union. They will be one step closer to the euro, yet still outside the single currency. This implies that they will still be susceptible to a number of risks which come with being outside the euro. Let me mention a few of them, as we will need to bear them in mind over the coming months and years.

- Staying outside the euro area, non-euro member states still lack an impact in the decision-making process, and have a limited sway in shaping the reconstruction of the eurozone.
- From the outside, non-euro member states can only participate as opt-ins to the eurozone focused reforms. Unfortunately the opt-in status is an uncertain one, varies across legislations and we lack, as of yet, a concrete blueprint for their involvement.
- Moreover, lower transaction costs linked to the use of one common currency may put countries outside the euro area at a disadvantage when it comes to trade. The internal market will not be a level playing field anymore.
- While monetary policy flexibility is seen by many as an advantage, this need not be the case for an economy trying to build a solid foundation for its long-term competitiveness via deep structural reforms. With flexibility, there is always the temptation to use exchange rate policy to compensate for structural weaknesses. By committing to the euro, non-euro member states would in effect commit to deep structural change and avoid the temptation of short-term fixes.
- Additionally, the single currency can also cushion the danger of speculative attacks on national currencies, as these currencies of emerging economies might not be sufficiently strong to resist such episodes on their own.

How can we mitigate these risks? Joining sooner rather than later is a solution. In the meantime, we need to speed up preparation for the ERMII, and once in the system we need to be committed to it and avoid devaluing our currency. We must also be more vocal about the benefits of joining and the risks of staying outside. A thorough public information campaign will make the accession much smoother.

Before I wrap up, let me turn to the special case of the UK in the banking union story. Even if/once non-euro members join however, there will be one concern regarding political integration still lingering on the horizon, namely the case of the UK. The latter has made it very clear that it does not intend to join and we will have to find a way of coping both with its decision to stay out of the banking union, as well as with its potential opt-out of the Union altogether. The banking union project certainly brings us one step closer to a federal ideal of the Union, an idea which does not suit the UK's position. The banking union project has fuelled the UK's concern that the Union is moving in a direction into which the Kingdom itself does not want to shift. This is not a reason for the other member states to hold back however. What this state of affairs does reveal however, is a need for us to seriously think about what kind of relation the Union can hope to have with the UK and how a mutually advantageous relationship can be achieved which will hinder neither the EMU, nor the single market. It will not be an easy challenge.

Will the Banking Union reduce the risk of moral hazard or will it simply move the risk from the national to the European level?

On average, a European banking union should certainly do more good than harm. It will limit cross-border bank default contagion, eliminate inefficient liquidations, stimulate interbank flows and limit taxpayers' costs in case of bank failure.

At the same time however there are risks which come with it and one of them is that of moral hazard, as the banking union may encourage risk taking by systemic institutions. This could occur if banks start to perceive liquidation or bail-in threats under a banking union as less credible, relative to a national resolution regime. Whether or not this kind of moral hazard materializes depends on the design of the banking union and the one we have pushed for in the EU circumvents many risks of moral hazard. Allow me to explain.

Let us look first at the SSM. Its operational start is preceded by a year-long asset quality review and series of stress tests, started in November 2013. The latter exercises will allow the identification of downside risks and capital shortfalls ahead of the ECB taking up its duties and make sure that banks are recapitalised by the time they start being supervised by the SSM. Once the SSM begins its work, it will directly supervise the most significant credit institutions and indirectly the less significant ones based in the members states participating in the banking union. The SSM will have a broad range of competences, it will be able to authorise and to withdraw authorisations of banks, ensure compliance with the requirements banks have to enforce robust governance arrangements, require banks to hold own funds over and above capital requirements, limit the business, operations or network of institutions or to request the divestment of activities which threaten the stability of an institution, require institutions to put a limit on variable remuneration as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base, impose additional or more frequent reporting requirements, including reporting on capital and liquidity positions and require additional disclosures, among others. This will ensure a robust supervision mechanism is put in place and is an absolute pre-requisite for a single resolution mechanism.

Let us now turn to the SRM. The latter will apply to all credit institutions falling under the scope of the SSM. This means that before having recourse to any resolution financing, banks will be adequately supervised and the SSM should anticipate and deal with any attempts by banks to increase risk-taking with a view to having a fallback in the shape of the single

resolution fund (SRF). The SRF will be entirely financed by banking sector contributions. It will have a target level of €55 billion to be accumulated over 8 years and will bundle together contributions from the banks falling under the banking union umbrella, amounting to at least 1 per cent of the amount of deposits of all covered credit institutions. Banks will however only have access to the SRF once shareholders and bond holders of the banks in question have born some of the resolution costs (more specifically until a threshold of bail in of 8% in reached).

Moreover, the use of SRF is also regulated carefully. Resolution costs will be borne primarily by the compartments corresponding to the Member State where the institution under resolution is based, particularly in the first period of the fund's life. In the first year of the fund, only 40% of banking contributions will be mutualised, with the remaining 60% would be mutualised by the end of the second year. This will allow a gradual transition towards full mutualisation, reducing moral hazard concerns.

There will be a possibility to ask for a refilling of the fund by the banking sector under exceptional circumstances, as well as for the fund to go to the market, should it reach its limits. The decision making governing resolution will ensure that fair decisions are made and free-riding avoided. At the heart of the SRM is the single resolution board. The Board will have a permanent membership, comprised of an executive director and four other full time members, adopted on the basis of merit, skills, knowledge of banking and financial matters and of experience relevant to financial supervision and regulation. Additional members of the board include a representative of the national resolution authorities of the member state concerned by a resolution decision (these members will join the board depending on the decision being taken). The ECB and the Commission will also designate a representative entitled to participate in the meetings of the board as observers. The expertise and reputation of the board should lend additional credibility to the SRM and limit the risks of moral hazard.

Thus if we look at the SSM and SRM we see that many safeguards are already in place and could potentially offer a better protection against moral hazard than the mechanisms in place at the national level. On a country by country basis, we can see that many member states do not have credible resolution mechanisms and the risk of public bailouts would have remained, while in the European case, if we have moral hazard, it concerns entirely the banking sector, leaving public funds out of the equation and only as an option as a very last resort.

Admittedly, the entry into force of the Bank Recovery and Resolution Directive (BRRD) will considerably also limit moral hazard at the national level. The directive pushes for a harmonisation of national recovery and resolution regimes and introduces the bail-in mechanism. It also makes it compulsory for a resolution fund financed by the banking sector to be set up in every member state, in effect pushing for similar objectives of the banking union, only at the national level.

Similarly to the SRM framework, in the case of the BRRD, the first to bear the costs of resolution are shareholders and bondholders, who will see part of the debt owned written off (up to 8% of a bank's total assets). Only at this stage is access to the national resolution fund, under strict conditions made possible. The funds are entirely financed by the banking sector (by the end of 2024, member states must ensure that the available financial means of their financing arrangements reach at least 1 % of the amount of covered deposits of all the institutions authorised in their territory). Public interventions come only as a very last resort under a tool called "government financial stabilisation."

This makes it clear that if we want to see what effect the banking union will have on moral hazard we must be very in clear with what status quo we are making the comparison. If it is a national resolution regime without BRRD, then the decrease in moral hazard that the banking union brings about it significant. If it is a national resolution regime with BRRD, then even so, with a smaller fall in moral hazard risk, the banking union will nonetheless have additional value added.

As we have seen, the SRM for Eurozone and opt-ins and the BRRD for those remaining outside promise together to ensure greater financial stability in Europe and significantly reduce moral hazard. Having sad that, we are however left with one caveat, namely that of the on-going stress tests and asset quality review. Moral hazard could come in via the backdoor in this case. Let me explain.

Policymakers are still divided on how to make up such shortfalls and the question whether or not public funds will be used is still open. State intervention in the form of precautionary recapitalisations might be required in the case of a bank which is solvent and meets the Pillar 1 minimum regulatory requirement but does not meet a more stringent capital/liquidity threshold set by the supervisor. If states will be asked to intervene before shareholders and junior creditors are charged, we will reintroduce the vicious sovereign-banking loop which

we are trying to avoid. And this may well happen, as the bail-in provisions adopted by the EU this year will only enter into effect as of January 2017 and the recapitalisation triggered by capital shortfalls could end up involving nation states.

We must remember that at the same time however, the idea of using public funds is not entirely unreasonable. There are concerns that banks may struggle to find funding from private sources to make up capital shortfalls themselves and that if a substantial number of banks need to raise capital there could be a congestion in equity markets and consequent difficulties in recapitalising in a short timeframe, also due to market pressures and uncertainty. Some argue that this warrants a one-off state intervention. Whichever argument wins out in the end will have important implications for the credibility of the reforms we are carrying out and for the confidence in the EU financial sector.

Is it possible and how to reduce the overregulation of the financial system in the Union?

In the run-up to the global financial crisis, the world witnessed a strong tendency towards financial deregulation. This was largely the legacy of the Thatcher and Reagan administrations on either side of the Atlantic and was grounded in the belief that the free market in financial services would operate most efficiently if left to its own devices. The crisis dramatically exposed the flaws of this view. While policymakers were aware of the fact that both governments as well as markets could fail, it became clear that a strong set of rules would have to be put in place to ensure financial stability. A wave of financial regulations followed the world over.

In Europe, we tackled the problem hands on. We began regulating banks, insurance and pension funds, imposing credit caps and liquidity ratios, we also started looking into how to regulate the shadow banking system and non-bank financial institutions. Since reckless risk-taking and the lack of a coherent oversight mechanism, in particular for cross-border banking groups, were at the heart of the crisis, the policy measures taken were very much justified.

There is however at the same time a risk that we may be exaggerating in our endeavour to promote financial stability. Too much regulation can for instance lead to a dislocation of financial services to other parts of the world, resulting in a loss of growth potential for Europe (capital and jobs). The latter risk is clearly present in the case of a financial transaction tax (FTT) for instance. While the EU-level plan for an FTT has failed, 11 member states have set out to put in place an FTT based on the enhanced cooperation procedure. Their efforts have not materialized yet, but here is a worry that and FTT may do more harm than good in the long run, as experiments with FTTs in other countries, such as Sweden have shown. Thus the FTT is an example of a potentially excessive financial regulation which we can live without.

Banking regulation can also be excessive and lead to undesirable effects onto the real economy. While necessary to ensure a sound position, capital and leverage ratios imposed on banks also make it more difficult for banks to lend credit to the real economy. This has a direct impact on growth.

Similarly, imposing bonus caps by setting a set ratio between fixed and variable remuneration can in turn lead to an unprecedented rise in fix salaries to anticipate the entrance into force of

the set ratio. This in turn limits the capital availability of a bank, once more making it hard for the bank in question to provide credit to the real economy.

While risks of overregulation exist, the idea is not that the financial sector is better off unregulated, but rather that the right amount of regulation is a fine balancing act.

Another example of how regulation could be potentially detrimental is that of securitization. The regulation witnessed in the aftermath of the crisis was also complemented by a shrinking market for asset backed securities (which can be bundles of mortgage, small business and other loans which are sold to investors). Securitization gained a bad reputation during the financial crisis which led to a tough regulatory treatment of the issue. This in turn led to a shrinking securitization market. We forget however that not all securitization is bad and that plain vanilla securitization may be very useful.

Banks are still under pressure to improve capital ratios, which in turn makes them reluctant to lend out to the real economy. One way to improve credit ratios could also be to bundle and repackage loans and sell them to outside investors. This leads to a balance sheet downsizing as well as to improved capital ratios. This in turn would take away some of the pressure from banks and allow them to lend more to SMEs. Both the ECB and the Bank of England have already called for EU and international regulators to review developments in securitization markets and the ECB is in the midst of finalizing its own strategy on asset backed securities.

So what are the key takeaways on to handle excessive regulation in the financial sector? The examples discussed previously leave us with some ideas.

One is that we should be careful not to create new regulations which may do more harm than good in the long-run and if we are unsure, take our time to correctly assess benefits and costs. This is the case of the FTT and the difficulty involved in setting one up in Europe should certainly make us skeptical about its necessity and usefulness.

A second involves correctly differentiating between products and using our crisis experience wisely. This is highlighted by the case of securitization. Even if the latter had its fair share in the 2008 financial turmoil, plain vanilla securitization can be pursued with minimal risks and can increase credit flow to the real economy. The ECB's recent moves to improve the functioning of the asset back security market are welcome in this sense.

A third takeaway is that we need to view the whole spectrum of financial regulation and overcome the current sectoral approach. Finance represents one of the most interconnected areas of our economies and banking regulation cannot be treated independently of non-banking regulation and so forth. Spillovers and potential overlaps exist. Policymakers should identify them as soon as possible and address those which are impeding a smooth functioning of the sector. For this, a holistic approach across the financial sector is needed. One concrete thing the EU could do it provide an assessment of the cumulative effect of all financial sector reforms undertaken and see where there are overlaps or spillover effects which are superfluous or even damaging. Where such issues are identified, prompt measures should be taken. The sooner we do this exercise the better, as it could allow us to take measures even before some of the recently adopted regulation packages enter into force.

But our focus should not remain exclusively on Europe. The global world of the 21st century also brings along global finance and credit institutions operating on a global stage, with regulations adopted in Brussels impacting the operation of credit institutions in the US for instance. And yet regional approaches to regulation differ markedly. The restructuring of the banking sector, as done via the Volcker rule or as currently proposed by the EU offers one example in this sense. If one considers the two plans, one will find numerous instances where regulations adopted on one side of the Atlantic will burden the functioning of the financial sector on the other.

While the world is far from ready to adopt a harmonised approach to financial regulation there is something to be said about enhancing discussions in international fora, such as the Financial Stability Board or the G20. Accepting that there is limited room for manoeuvre on existing pieces of legislation, international players should discuss more openly with one another before proposing new regulations. The European version of Volcker is an example in this sense, and Europe could be a trend setter by approaching its American partners and seeing how to design the rule without unnecessary overlaps of burdensome spillovers onto US credit institutions operating cross-border.