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Introductory Remarks: How to avoid fragmentation of global markets

Lunch debate organised by
the European Parliamentary Financial Services Forum (EPFSF)
15 October 2014, European Parliament, Brussels

All of us here know that finance became extremely globalized in the run-up to the crisis, with cross-border bank flows increasing more than tenfold (to around $5 trillion) between 1990 and 2007. By 2012, the figure had fallen to less than a third of $5 trillion.

There were several causes behind this fall. On the one hand, banks were under pressure to deleverage and meet stronger capital requirements. On the other, the world quickly realized that cross-border banking was a powerful channel for transmitting the crisis. As a result, regulators started ring-fencing their banking systems.
While policymakers must certainly be cautious about the risks related to cross-border banking, we must not forget about the benefits that closer integration naturally entails. A closely supervised, sound framework of integration can come with significant payoffs. An example in this sense is the banking union framework we are currently setting up in Europe.

Another example is of course the capital markets union, announced by Mr Juncker in July and much debated by Lord Hill during his hearing at the European Parliament. The capital markets union promises to be the next frontier beyond banking union, one which could bring about unrestricted capital flows across the Union. It would strengthen investor confidence and make the life of SMEs easier by encouraging private placement, strengthening the market for safe securitization, encouraging long-term investment in our economies across the single market. The capital union promises to make national borders less of an issue and ensure that markets no longer discriminate between say, SMEs in Italy and SMEs in Germany. But of course, the EU is part of a global world.

While working from a high-level blueprint set by the Group of 20, policymakers and regulators gave little thought to how detailed implementing rules would align with those in other countries or parts of the world.

Six years on from the crisis, extraterritorial legislation has increasingly become an issue for financial services providers and their clients. Global markets fragmented along geographic lines, negatively affected liquidity and pricing and threatened the efficiency with which end-users can access financial services.

Regulators have become increasingly aware of these issues, and are attempting to address them. For example, the IOSCO Task Force on Cross-Border Regulation has been charged with identifying ways of finding solutions to the problems raised by extraterritorial measures. But a lot of work remains to be done, and the challenges to the regulators themselves must not be forgotten. The key point is the extent to which reassurance can be given in each other's supervisory practices/approaches "on the ground".

This morning we had a debate on financial services in the TTIP context. It still looks like a non-starter due to lack of trust. I am sure this issue will come up in our discussions.

Three quick-to-implement solutions can go some way to helping this: dialogue at the initiation of policy-making; reasonable rule-making timescales coordinated across jurisdictions; and a process for identifying and bringing together regulators when differences emerge.

We are here today to dig deeper into these issues, look at the consequences of fragmentation, as well as at the determination of equivalence across jurisdictions. Finally, I hope we will also be able to address concerns related to different implementation schedules and the role that international regulatory groups can play in resolving extraterritorial issues.

Before we begin the discussion, please allow me to introduce our speakers.