

Monsieur le Commissaire Michel Barnier

International Conference:

**EFFECTIVE FINANCIAL MARKET REGULATION AFTER
PITTSBURGH - ACHIEVEMENTS AND CHALLENGES**

Keynote speech – Delivering on the EU's G20 commitments

Berlin, 20 May 2010

- Dear Ministers, Ladies and Gentlemen,
- Thank you for this opportunity to present to you the Commission's agenda - **my agenda** - for implementing the **G20 agenda for reform in the financial services sector**.
- Last week, the Commission adopted a **Communication** in preparation of the G20-summits this summer. It contains our plans for **regulatory reform** in the coming months. I outlined these plans to the 27 EU ministers of finance the day before yesterday.

1 - But please allow me to first make a couple of general remarks:

- This very timely conference takes place against a background of **fragile recovery**, threatened by recent turbulence around sovereign debt. The situation has been worsened by speculation on currency exchange markets.
- The EU has taken **decisive action** to tackle sovereign debt issues in the euro zone and we have shown that we are **serious about the protection of the euro and the financial stability in the EU**.
- However, the recent turbulence reinforces the need to progress on **efficient and intelligent regulatory reform**.
- This strategy must be **co-ordinated globally**. The G20 agenda is our common roadmap.

- I am just back from my first visit to the United States as European Commissioner for the Internal Market and Financial Services.
- I had very fruitful discussions, including with Secretary Geithner. Our American counterparts agree that the G20 agenda is our common roadmap. **Of course, words are not enough, action is needed.**
- **Our financial markets are different and we have very different legal processes.** It is normal that we don't always agree on everything and that we sometimes use different methods. **This is not a problem – as long as our objectives and the time plan are the same.**
- I expect that the US Financial Reform Bill will be adopted in Congress and enter into law this summer. It will be far-reaching and have profound consequences on the financial system.

- On our side of the Atlantic, we have certainly already taken action – I think about the **implementation of the Basel II framework**, our **regulation on credit rating agencies**, our work on **remuneration** and **global accounting standards**. But for the sake of our own economy and for the sake of our influence in the G20, we have to continue our reforms.
- As I told ministers on Tuesday - I take personal **responsibility** for the implementation of the G20 decisions in the EU. **The Commission will deliver**. We intend to present at the latest by **spring 2011** all the **proposals necessary to meet our G20 commitments**.
- However, this **ambitious agenda** will require a **real effort** from the Member States in the Council and from the European Parliament in order to ensure **rapid adoption** so that all the measures can be implemented by the **end of 2012**.

2 - And first of all – we must conclude on the proposals that are already on the table

- This applies to our **Directive on Hedge Fund and private equity**. The responsible committee in the European Parliament voted on Monday and the Finance Ministers discussed the matter on Tuesday. The Commission will do its best to help finding a workable solution on the third country chapter, ensuring a **true level playing field**, maintaining a **high level of investor protection** and making sure that our **regulation remains effective**.
- And very importantly, we need to reach an agreement on the **proposals on supervisory reform**. Any delay of the adoption in Council and Parliament beyond the summer will **put back the creation date** of the European Systemic Risk Board and the European Supervisory Authorities to after the start of 2011.

- I recognise that the new system has to be built **step by step**. And I understand that Member States want to have a **possibility of control** when national fiscal responsibilities are at stake. **However, we must have strong and independent Supervisory Authorities in place in 2011 to show that we are serious about strengthening supervision in the EU.** Heads of States and Governments agreed to this in June last year. It will require flexibility on the side of everyone, because positions are currently far apart.
- Finally, I should mention the need to find an agreement on our proposal for **revising the Capital Requirements Directive for Banks, the so called CRD III**, which implements the G20 principles on remuneration and on technical key matters like capital requirements for the trading book.

3 - Let me now turn to the work ahead

- Next week, the Commission will present a **Communication on options for resolution funds**. I hope that we can agree on a common approach to ensure that **financial institutions contribute to the cost of the resolution of future financial crises**. Prevention costs less than fixing.
- As I see it – a resolution fund should be used in order to **finance the orderly resolution** of a bank. It should ensure that tax payers' money is not the first line of defence. **But it should never be an insurance fund for banks.**
- The resolution fund is one tool of a comprehensive **framework for cross-border crisis resolution in the EU**. A huge challenge, I know, and one that raises many complex issues. But we cannot avoid taking this work forward. I will set out my ideas in a **Communication in October. And legislation will follow early 2011.**

- In June, I will present **amendments to the Regulation on Credit Rating Agencies**. To ensure **efficient and centralised** supervision. And **transparency** about the entities demanding the ratings in order to ensure that all credit rating agencies have access to this information. This could help competition.
- **It is a first step**. We may need to look into this particular market in more detail - the disproportionate role played by rating agencies in today's financial markets and in our regulation; the handling of public debt rating and the lack of competition in the market.
- Also in **June**, we will adopt a **Green Paper on Corporate Governance in financial institutions**. A consultation period will follow. The Green Paper will address a number of questions - How to manage risk effectively in financial institutions? How to empower shareholders? This is

important – because **true crisis prevention starts from within the companies.**

- A more fundamental upcoming legislative project concerns a **European framework for OTC derivatives markets.**
- 80% of derivatives are traded on OTC markets. The crisis has shown that those markets **lack transparency and solidity.** Ambitious regulatory reforms are needed.
- We will tackle this in several steps:
 - First of all – this summer we will make proposals to reduce counterparty risk – the issue that caused the failure of Lehmann Brothers. We will require **compulsory clearing by Central Clearing Counterparties for eligible, standardised contracts.**
 - For **transparency**, we will propose the use of trade repositories to collect all information on all transactions. And

we have to make sure that this information is available to **all European supervisors.**

- This raises many complex matters – that is why I will shortly launch a **public consultation.**
- Later this year and by the beginning of next year, we will make proposals modifying the **Market Abuse Directive** and the **Markets in Financial Instruments Directive** in order to make sure that these Directives cover also OTC derivatives. Of course, the **revisions** will also concern other issues that have emerged in recent years - as **sanctions and pre and post-trade transparency.**

4 - Another key strand of our strategy is consumer protection.

- This means **reform of deposit insurance and investment guarantee systems.** Current systems vary among Member States. And they are outdated, slow and inefficient.

- We must also see how we can introduce **effective protection for insurance policy-holders.**
- We will make the relevant proposals this summer.

5 - Let me finally turn to regulatory capital for banks – the core of financial stability.

- A fourth revision of the **Capital Requirements Directive** will be presented towards the end of this year or the beginning of 2011. To ensure **better and higher quality of capital.**
- This revision will be **based on the work of the Basel Committee**, but I will not hesitate to take into account the specificities of the **European banking market**: Banks as the main providers of credit to the real economy. And the importance of our **mutuals and cooperative banks.**
- And I am fully aware of the fact that we need to get the **timing, phasing in and calibration of all the new**

measures right. To ensure that we do not harm the fragile recovery or affect the availability of credit to the wider economy.

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Ladies and Gentlemen, these are my main projects for the forthcoming months. Which are the **main challenges** ahead in this process?

- We must ensure a **broad debate** in order to propose useful **technical solutions**. And as mentioned, we have to **measure the impact and get the calibration right**.
- However, the main challenge will be to keep the **political momentum and make sure that all actors involved take their political responsibility**.
- And the **financial industry must play its part** by not only sharing its technical knowledge but also commit fully to regulatory change.

- It is our **common responsibility** to get our house in order.
And defend the internal market – our internal market - from the **populist and protectionist** tendencies that could emerge if we fail.