

The Transatlantic Financial Services Agenda in the Post-Crisis

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On 27 April 2010, Mark Sobel, Deputy Assistant Secretary for international monetary affairs and financial policy US Treasury discussed the transatlantic financial services agenda in the aftermath of the financial crisis. Karel Lannoo, Secretary General of ECMI and CEO of CEPS, welcomed Mr. Sobel and remarked how Europe and the United States are getting closer in drafting regulation on many issues, such as over-the-counter derivatives or credit rating agencies regulation.

Mr Sobel agreed with the previous statement and focused his intervention on three pillars in the agenda of the post-crisis:

1. Drafting and implementing financial reforms and overhaul;
2. Promoting global cooperation at G-20 level and through other international institutions;
3. Improving EU-US cooperation in order to overcome relevant regulatory differences and divergences in the legal systems.

On the first point, Mark Sobel listed the numerous initiatives done by the US government to overhaul US financial institutions and economy. For instance, the 'fiscal stimulus' plan, the TARP plan and the financial stability test (so called 'stress test') have provided support to the US economy with relatively low direct costs (over 70% of TARP resources have been repaid so far). Regulatory reforms then have been drafted and submitted to the US Congress. An agency for consumer protection and the Financial Services Oversight Council (FSOC) to coordinate policy responses and monitor interconnectedness of firms will be set up. Actions have been taken to reduce moral hazard of financial institutions ('too big to fail'): (i) constraining risk-taking strategies for deposit-based financial institutions (capital and liquidity ratios, disclosure, stress testing, etc); (ii) promoting a more resilient market structure (centralization of clearing, more exchange-traded products); (iii) managing the failure of big financial institutions (using less taxpayers' money). As a result of these actions, the US banking system is currently well capitalised. On specific issues, Mr Sobel confirmed the intention to fully implement Basel II requirements for banks, to discourage excessive leverage and to separate proprietary trading books and securitised products from the balance sheet of deposit-based institutions (so called Volcker Rule). On over-the-counter (OTC) derivatives, Mr Sobel highlighted the importance of trade repositories, more trading on exchanges and alternative platforms (defined in line with the US regulation for ATS), centralised clearing on CCPs for standardised-eligible products, and more transparency and regulatory capture for bespoke transactions. For non-standardised/eligible products, higher capital charges shall be defined. Finally, on compensation

schemes, there should be stricter oversight from supervisors and less from regulators in enforcing compensation models that are in line with the long term interests of the firm.

Once defined the domestic agenda, Mr Sobel turned on the other two points. On global cooperation, he pointed out how the work done so far at international level - especially at Financial Stability Board (FSB) and G-20 level - is very much close to the US domestic agenda. In his view, progresses have been made to comply with the G-20 commitments. The US government is working within the Basel Committee framework to develop cross-border resolution procedures and information sharing in order to manage failures of systemically relevant financial institutions. On EU-US cooperation, Mr Sobel mentioned a list of areas in which European and US financial authorities are working closely: for instance, credit rating agencies regulation, OTC derivatives regulation and accounting standards. In regard to the latter, a lot of work has been done for the accounting convergence but it is hard to get there if we do not correctly balance common high-level principles with national differences. SEC is already allowing companies to be listed with IFRS only. On the Alternative Investment Fund Managers (AIFM) Directive, Mark Sobel emphasised the need for a tougher regime for hedge funds but he worried about the unlevel playing field that the EU directive can create at global level (mainly with the equivalence provision). The US claim for more regulatory oversight.

In conclusion, Mr Sobel remarked the responsibility of the financial system for this crisis. They should bear the costs and governments should gradually recur less to taxpayers' money in order to fix these issues. Spaces for regulatory and supervisory arbitrages must be minimised. The impact of the crisis on public finances has been devastating and he urged Europe to quickly act in order to save Greece from the default. On the other side of the Atlantic, instead, the US government is acting to drastically reduce the deficit next year to 4% and the debt to 70% by 2020, even though for Mr Sobel the best way to reduce the burden of the debt currently remains a quick return to a solid and stable economic growth.

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