EUROPEAN COMMISSION

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The EU and US: leading partners in financial reform

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Good morning ladies and gentlemen.

Thank you for inviting me to speak at the Peterson Institute today.

I very much appreciate Peterson's work analysing economic and financial issues. And the advice you give to policy makers.

Thank you Adam Posen for inviting and hosting me today.

I have come to DC more often than any other capital outside Europe.

The reason for this is simple. Although I am responsible for the "internal market" – or better the "Single European Market", our external relations are just as important as our internal rules.

When the financial crisis hit in 2007-8, the EU, US and other jurisdictions quickly realised that we needed an overhaul of financial regulation.

The global nature of the crisis called for a global response.

We rose to the challenge with the G20 in the driving seat of global financial reform. Laying the groundwork for common standards across the globe.

Sometimes we hear critical voices - on both sides of the Atlantic - arguing that we have not done enough. Or that we should have approached the reforms differently.

They seem to forget we had to take wide-ranging and tough decisions in an extremely difficult environment. Of course I agree not everything is perfect. The real world isn't.

But after years of lax regulation, we have fundamentally changed the way in which we regulate finance.

Both the EU and the US have equally delivered on these reforms.

In Europe, we created an entirely new set of rules governing the financial sector. We implemented the G20 so that every market, every player and every activity would be well regulated and effectively supervised.

The actions we have taken in Europe address the gaps exposed by the financial crisis.

But they also create new ways of working.

We have implemented the agreed international standards while respecting the EU's legal and regulatory system and traditions.

Just as you have made changes in line with the specific features of your system.

The EU reforms have been delivered through a large number of individual pieces of legislation. While the US delivered one large framework bill in the Dodd-Frank Act.

But we are now both at a very similar level in our implementation.

In some areas the US is more advanced.

For instance concerning the resolution of banks.

In others, such as bankers' pay, high frequency trading, and country-by-country reporting, the EU is ahead or has introduced stricter rules than the US.

But we should not keep score cards. We are each making the changes that our respective systems need. And we set the scene for global standards.

BANK CAPITAL

An example: the capitalisation of banks.

Increasing the quantity and quality of capital that banks hold is one of the major changes we have made in recent years.

There have been significant improvements in capital and leverage ratios on both sides of the Atlantic.

I still keep reading in the press that EU banks are weaker than their American counterparts.

The facts don’t support that.

For example FDIC data shows that the capital and leverage ratios of big banks, the so-called G-SIBs, in the US and EU are now broadly similar.

The risk-weighted capital ratios of big EU banks are even slightly better than those of their US counterparts.

If you compare banks that operate with similar business models, you see very comparable leverage ratios.

There are reasons, due to structural features of the US banking environment, why US banks have been able to reduce their balance sheets more than EU banks.

The US has more developed securitisation markets, for corporate loans in particular. While in Europe covered bonds feature in banks' balance sheets.

US banks transfer many of their mortgage loans to Fannie Mae and Freddie Mac, which are not subject to leverage ratio requirements.

In this way, significant leverage in the US financial system is transferred away from banks’ balance sheets.

So there are structural differences, but they do not mean that European banks are weaker or less capitalised than American banks.

Moreover, an asset quality review and a comprehensive assessment of banks' balance sheets are currently underway in the EU. I think no one doubts the competence and objectivity of the ECB in this exercise: it has no interest in fudging the process or the results.

These reviews will once and for all shed full light on the state of Europe's banks. And thus contribute further to restoring confidence in our banking sector.

The point I am trying to make here is that the real issue is not whether the EU or the US bank capital rules are stricter or better. The point is that we both must have robust requirements that ensure trust in the banking sector in the US. Trust in the banking sector in the EU. And trust between the EU and the US. This will also ensure the trust of the rest of the world.

BANKING UNION

We have gone further than just strengthen existing rules. We have created a new regulatory basis and institutional set-up for banking supervision and resolution.

This was the missing element in the creation of the European Monetary Union.

Banking Union is a reality. The legislation has been adopted. It is being implemented.

It is nothing less than a revolution: the most ambitious project since the creation of the euro.

It will help to break the link between banks and sovereigns.

Common supervision will mean that stronger prudential requirements for banks will be effectively enforced.

This will make EU banks more solid and better able to manage risks and absorb losses.

Failing banks will be resolved without taxpayers' money, limiting negative effects on governments' fiscal positions. Instead shareholders and creditors will be called upon to pay if banks make mistakes.

Any additional funds that may be needed in exceptional cases will come from the banking sector itself.

The banking union will be a major contributor to financial stability.

Not just in Europe but globally.

We have an ambitious work plan to put the Banking Union into action by November this year.

We are working on secondary rules to set out how much banks will need to contribute to the resolution funds.

And we still need to agree with the US on how – in detail - we would resolve a banking group active on both sides of the Atlantic.

Because neither you nor we can do this on our own.

INSURANCE

The insurance sector is in many instances as important as the banking sector for providing essential services and safeguards for our citizens and companies.

Insurance is not regulated at Federal level in the US. Yet there are global issues at play and insurance companies need a solid supervisory regime. In the EU this takes the form of what we call Solvency II, which will come into effect in 2016.

Our economies require competitive and well-supervised insurance companies and this requires solid co-operation across the Atlantic. We also need global standards. The EU and US have an existing insurance dialogue that is starting to bear fruit. Insurance companies provide insurance cover across borders. It is crucial that policy holders and supervisors can rely on the solidity of the firms that provide guarantees.

On the basis of our work together we hope to be able to rely more and more on each other's rules and supervision in various insurance domains in the future. A first key objective should be the opening of negotiations for a formal agreement on reinsurance as soon as possible.

STRUCTURAL REFORM OF BANKS

Finally I'd like to mention the proposals I made in January this year on the structural reform of European banks.

When they become law, they will stop the biggest banks from engaging in risky proprietary trading.

And make banks separate certain trading activities from their deposit-taking business if they are a threat to financial stability.

This proposal is not exactly the same as the Volcker rule.

But it shares very similar objectives and it is appropriate for the EU market – just as the Volcker rule is tailored to take account of the specific nature of US markets.

But we face a real challenge:

We must find a way, in cooperation with our counterparts in the US, to make it work for banks that are subject to both jurisdictions.

I have given you four examples where EU-US cooperation in financial regulation is needed and essential:

Structural reforms to the banking sector, bank capital requirements, resolution of banks and insurance.

A fifth one – if further proof is needed – is derivatives.

The CFTC, but also the SEC, and the European Commission have been looking for ways to make our two regulatory systems work together.

To avoid regulatory duplication, overlap or loopholes so that financial stability is increased.

And to keep efficient transatlantic derivatives markets working for the good of our economies.

But there is still a lot of work to be done and I am looking forward to continue working with Chairman White and with newly appointed Chairman Massad on these issues.

WHY WE NEED TO INCLUDE FINANCIAL SERVICES REGULATION IN TTIP

These 5 examples clearly illustrate that joined-up markets need joined-up regulation and supervision.

The EU and the US agree on the overall objectives of sound and resilient banks and financial markets.

But we have and will keep different regulatory procedures and frameworks.

We need to do more to make these regulatory systems work together.

Identify differences and eliminate them where possible, or at least mitigate any detrimental consequences they may have.

It would be nothing short of a disaster if our agreements on broad principles are undermined by the detailed rules and their implementation being just too different.

This is why we want to include regulatory cooperation on financial services in the TTIP.

Not as I often read to delay reform, but because it is regulatory issues that are at the heart of our relationship in financial services. Our relationship is about much more than market access.

I understand there are concerns here that including financial services regulation would lead to the unravelling of the Dodd Frank Act and deregulation of financial services. For us, the objective is the opposite: better and high ability interoperable regulation. A race to the top, not a race to the bottom.

Cooperating on regulation is the only way to ensure global financial stability while maintaining open markets.

We in Europe would like to see a mutual EU-US assessment of our rules.

Outcome-based and backed up by specific arrangements to govern EU-US regulatory cooperation.

For this, we need a solid, treaty-based system for regulatory cooperation.

One that harnesses the political push that the TTIP brings, while leaving the work on regulation to the regulators themselves.

Not only to ensure financial stability but also so that we can become more transparent to our stakeholders.

And be more accountable to the public via Congress here in the US and via the European Parliament on my side of the Atlantic.

US negotiators in the TTIP argue that we already have an informal dialogue, the Financial Markets Regulatory Dialogue, and that it is enough.

I don't agree.

Informal dialogues between administrations are useful.

And we fully intend to continue them.

In Europe we have continuously tried to upgrade these dialogues.

But a dialogue is not true regulatory cooperation.

I return to this point again and again.

The dialogue has not avoided situations – which in my view could have been avoided – where we only managed to find last minute fixes in situations of urgency leading to important market insecurity. A good example is the process which led to the 'common path forward' on OTC derivatives.

We ended up discussing important developments in an ad-hoc way, in informal and opaque settings. And now we are struggling to implement the agreements reached late in the night.

The same goes for many other issues in securities, banking and insurance regulation.

Don't get me wrong, I am not naïve.

We will of course never agree on everything and neither jurisdiction should be able to force the other to follow its rules.

But we can try harder and we could do better to avoid the problems I mentioned.

GLOBAL COOPERATION

This does not mean that we are turning away from cooperation at a global level. On the contrary, we should enhance work at multilateral level.

We operate in a global market, and that should be reflected in our global financial structures.

The G20 – through the FSB – has provided a platform on which we have built the reform agenda over the last five years.

The FSB should be given teeth so that it becomes an even more effective rule-based international financial organisation.

But many detailed regulatory issues cannot be solved at a global level.

The EU and the US make up two-thirds of global markets.

We have a special responsibility to show that cooperation is possible and effective.

NEW THREATS

We also need to act together to address new challenges and new threats.

There may still be certain weak points that make us vulnerable to a new crisis.

The source of any future crisis will almost certainly be different from the last one.

That is why we need to regulate – in a consistent way – all parts of the financial system.

A particular concern we and Americans both share is the growth of the shadow banking sector.

We still have a lot to do to prevent systemic risk building up in the system and to give incentives to act within the regulated sector.

The FSB has said that weaker regulation and supervision of shadow banking activities could drive some activities from traditional banking towards shadow banking. And recommends regulators to require greater transparency.

This was the focus of a proposal the European Commission made back in January.

Under this proposal, all securities lending and repo transactions will be reported to a central database.

This will go a long way towards shedding light on this significant part of the market.

A market that is global in scale and does not stop at national borders.

It is yet another issue where the EU and the US need to work together a find a common solution.

In conclusion, ladies and gentlemen, the EU and the US are partners in reform.

We have come a very long way over the last few years.

We now have to turn our attention to the detailed implementation of our new rules.

In a coherent and consistent way.

I strongly believe the best way to do that is through closer regulatory cooperation, in particular in the framework of TTIP.

So that we can meet future challenges in true partnership.

And achieve a safe, sound financial system that serves the wider economy.

Thank you.