

General info

What is the exact title of the session?

What kind of Future for Finance?

What is the timing?

Wednesday 30 June from 14:00 – 15:15

What is the framework of the session?

The crisis was caused by risky banking, bad management and failed supervision. In the EU, the 'de Larosière' report called for EU-wide financial supervision. The G20 agreed on bonus and compensation restrictions in the financial sector. Banks are put to the 'stress test'. By now, Europe is implementing exit strategies regarding the stimulus packages. But is there real international coordination? Can Europe absorb or prevent a future credit crunch? How can the EU lead on further reforms of the international financial sector and how sustainable will they be for the next decade?

Introduction: the topic

The crisis has highlighted the tight interconnection between the financial services industry and the functioning of the broader economy. A sudden breakdown in the supply of credit has led to a major disruption to trade and business activity worldwide. Reforms of financial markets must take account of the economic factors underlying this crisis, addressing in particular the need to reinforce cross-border supervision and crisis management practices, improve incentive structures and prudential rules and reduce more generally the pro-cyclicality of the financial system. Furthermore, large-scale public interventions have been necessary to rescue banks and restore credit channels, but these entail important challenges to maintain the level-playing field and sound competition. This emphasises the need for coordination at European and international level.

Main issues at European level

The EU is focused on restoring stability to financial markets and to ensure access to finance for companies. Policies are aimed at preventing a repeat of the crisis. Regulation is to cover all operators conducting financial activities that have a systemic impact. It should foster market transparency and accountability, reduce risks, improve risk management, and be proportionate to the size of the risk involved. Better regulation tools should ensure that smart solutions are devised that are cost-effective and based on comprehensive impact assessments.

- Strengthen financial supervision and establish a common rule book to eliminate differences between regulatory regimes. The Council agreed a common approach regarding both macro- and micro-supervision which the Parliament is currently considering.
- Parallel to this, the Commission is considering proposals to implement resolution regimes for cross-border banks to create the possibility for mechanisms to prevent escalation of financial distress or its contagion and make managers, shareholders and creditors more responsible.
- The Commission recently consulted on proposals to strengthen global capital and liquidity regulations in order to promote a more resilient banking sector.
- Concrete proposals to improve transparency and stability in derivatives markets are expected before the summer.

Challenges in the short and long term

Challenges in the short term

Globally coordinate regulatory initiatives to ensure that all relevant institutions are covered and that a level playing field is established without any possibility to circumvent rules.

Devise new regulatory measures in a manner that raises the resilience of the banking sector whilst avoiding negative effects on bank lending activity that could impair the economic recovery.

Challenges in the long term

Resolve “too-big-to-fail”.

Agree criteria for common burden sharing and lender of last resort situations in the event of a new crisis to complement strengthened macro- and micro-supervision.

Establish an international resolution regime for cross-border financial institutions.

Possible questions to be discussed during the session

5 Most relevant questions to be discussed during this session

Question 1:

How can we ensure that financial reform measures are globally coordinated and convergent to prevent regulatory arbitrage?

Question 2:

What can be done to make companies less dependent on bank lending for accessing the finance they need?

Question 3:

How to devise comprehensive impact assessments that assess the cumulative effects of all relevant rules and other requirements on the financial sector and the economy?

Question 4:

How to maintain financial market integration and avoid segmentation of financial services along national borders?

Question 5:

What will the effect on finance be if stimulus measures end and governments are highly indebted?

Further reading

Provide 3 interesting weblinks for further reading

1. http://ec.europa.eu/financial-crisis/reforming/index_en.htm
2. <http://www.businesseurope.eu/content/default.asp?PageID=584>
3. <http://www.euractiv.com/en/financial-services>

Provide 3 articles/books for further reading

1. Grumpy Old Bankers: wisdom from crises past – Centre for the Study of Financial Innovation (CSFI) - 2009
2. Companies' access to finance: a European action plan – 27 March 2009
3. Overcoming too-big-to-fail – Centre for European Policy Studies (CEPS) – 2010

