Speech by Vice-President Dombrovskis in London, at Bloomberg: Upholding a strong international financial system

London, 10 February 2017

Ladies and gentlemen,

Five hundred years ago, a reformist movement started which would change the face of Europe: the Reformation. It contributed to democratising learning. It helped shield Renaissance thinkers from persecution. Many argue it paved the way to the age of enlightenment, thereby shaping many of our values today: free rational thought, tolerance, solidarity and openness.

Five hundred years later, Europe faces a very different set of challenges to those pinned on a church door by Martin Luther. But there is a sense we too live in a period of disruptive change. During the last decade, we have fundamentally reformed economic governance in the European Union. Working with our international partners we have built a whole new regulatory architecture for our financial system. Last June's referendum result – which we regret but respect - means we are now preparing for a new EU-UK relationship. The recent American elections have caused further uncertainty, and shaken many well established assumptions.

Change can be unsettling. My contention today is that as we concentrate on making the best of it, as we look to the future, we should be mindful of our past and build on what has already been achieved. While we should always be willing to adjust our thinking when facts change; we should be ready to defend longstanding European values when they are threatened or when evidence based policy is assaulted by alternative facts.

Today, I want to talk about what that means for the financial sector; to recall what lies behind existing reforms; and explain why we hope to continue cooperating on financial governance with our international partners.

We are all familiar with the magnitude of the global financial crisis which shook our economies to the core. As overheated economies were jolted back to reality, property markets collapsed and the capital base of many banks was wiped out. Taxpayer funded bailouts of unprecedented scale were required, a sovereign debt crisis ensued, and unemployment shot up – particularly among young people.

Since then we have come a long way as far as financial governance is concerned. We have put in place a single rulebook for all financial actors in the European Union. Central to it are stronger prudential requirements, improved depositor protection and rules to manage failing banks. It also covers better governance for trading venues, enhanced transparency for trades in shares, bonds and derivatives, and higher investor protection standards. In the euro area, the Banking Union is up and running, with the European Central Bank as the central prudential supervisor and a Single Resolution Mechanism to manage a resolution effectively should the need arise. The three European Supervisory Authorities have been ensuring more convergent supervisory practices and outcomes across the Union.

When there is a case to adapt our rules to make them more growth friendly, we are doing so. Our Call for Evidence, to which many of you contributed, is now leading to tangible improvements. But without weakening our prudential framework. We have just come forward with measures to adjust and strengthen the framework for the banking sector. These would introduce internationally agreed standards into EU legislation to better manage risk, while making adjustments to support the financing of the wider economy: to SMEs and infrastructure projects.

Thanks to these reforms, we can now focus on growth. The Commission does so with three clear priorities: investment, responsible fiscal policies and pursuing structural reforms to increase our competitiveness. The European economy is growing again for the fifth consecutive year. All Member States are expected to grow in 2017. EU GDP is higher than before the crisis and set to continue growing. We are gradually reducing public debt and deficit levels. And Europe's banks are stronger and better capitalised.

We are also moving ahead with work to build a single market for capital, a Capital Markets Union. To ensure companies of all sizes can get the funding they need and to deliver financing for long term investment projects, particularly infrastructure. We have almost completed the first wave of measures.

Our proposal to restart securitisation markets by defining simple, transparent and standardised securitisations is now in the hands of the Council and the European Parliament. If they reach an agreement, this could unlock up to 150 billion euros of additional capital to the EU economy. Our proposal to overhaul the Prospectus regime to make it easier, faster and cheaper to issue public equity and debt in the EU was agreed late last year. And our proposal to strengthen Europe's venture capital markets is being discussed by the European Parliament.

After this first wave of measures we are moving to the second phase of the project. We want to quicken the pace on existing work, such as measures to make business restructuring easier and plans to build a pan European private pensions market. Also to be more ambitious in the areas such as Fintech and sustainable finance. To shape our approach, we have just launched a public consultation and we will publish a midterm review before summer. My objective remains what Lord Hill set out only little more than a year and a half ago, to put a well-functioning and integrated Capital Markets Union in place by 2019. The prospect of Europe's largest financial centre leaving the single market makes our task more challenging, but all the more important.

But as we focus on strengthening the recovery, we cannot forget the lessons of a crisis which illustrated - in graphic terms - the direct link between the stability of our economy, the resilience of our financial system, and the well-being of people. It showed our financial system is inherently international and that financial stability cannot be achieved within national borders. International finance needs international regulatory cooperation. A stable financial system is a global public good from which we all benefit. A common approach makes it safer and underpins the level-playing field we need for free trade, competition and growth. Without it, we run the risk of regulatory arbitrage and renewed instability.

This recognition propelled Europe and the United States to work together in the G20 to further a common international financial governance agenda. It is why we want to continue working to upgrade global standards in a way that works for everyone. It is why we have recently proposed to introduce into EU legislation standards already agreed in the Basel Committee and the Financial Stability Board. It is why we believe there are strong arguments for continued international cooperation in the Basel and Financial Stability Board in the future.

Large, important financial centres have most to gain from a system of financial governance built on common standards that make service provision in different markets easier. As a global hub, it has helped the UK play to its strengths and attract business from around the world. Last year, London was once again rated by the Global Financial Centres Index as the world's most competitive financial centre. Nearly half the equity raised in the EU is raised in the UK. It is the biggest foreign exchange trading centre in the world. And around half the world's derivatives trading is done here. Far from being held back by international rules and standards agreed in the last decade - London has been thriving. And regardless of the UK's future relationship with the EU, London will only continue to thrive on the basis of a strong international system.

With other parts of the world, the EU already has frameworks for effective multilateral and bilateral regulatory cooperation. The Joint EU-Asia Pacific Forum and the EU-US Financial Regulatory Forum for example are up and running. Used properly, they should allow for early discussions and help improve the transparency and compatibility of our rules so that businesses and economies on all sides can benefit.

The difference cooperation between large financial centres can make is real. Last year we agreed an equivalence regime for Central Counterparties with the United States. It lightens the regulatory burden for CCPs on both sides of the Atlantic, by allowing them to comply with just one set of rules. It increases market certainty, cross border activity and supports financial market integration and liquidity. Last December, we granted equivalence to nine other jurisdictions, including India, Brazil and Japan for CCPs and Australia, Canada and Japan for trading venues.

Only last month, we reached an agreement with the US on insurance and re-insurance. It will make it easier for insurers and reinsurers on both sides of the Atlantic to operate and compete fairly across jurisdictions. It delivers the level playing field we need for companies to sell their services in different markets.

All these agreements are mutually beneficial because properly managed financial integration makes our system stronger, keeps our companies competitive, and supports investment and high quality service across different markets. As all G20 leaders agreed in Hangzhou last year, to be resilient growth must be underpinned by effective and efficient global economic and financial architecture. We therefore need to maintain what has been achieved at international level.

But if we believe the case for mutually beneficial cooperation remains, we are also clear we need partners to cooperate with. We are sensitive to talk of unpicking financial legislation which applies carefully negotiated international standards and rules. It is difficult not to notice when the Chair of the Federal Reserve is criticised for her approach to negotiating international rule and standards; or when an American President talks about 'doing a big number' on Dodd Frank.

America has every right to change its approach: to redefine its national interest. But as friends and allies, Europe is entitled to gently suggest international cooperation on financial governance is in everyone's interest.

What would happen if financial sector rules in New York, Hong-Kong, London, Paris, Frankfurt or Singapore were very different?

First, these centres would become more exposed to risks being imported from jurisdictions with less stringent rules.

Second, it would become more expensive for global financial institutions to comply with different legal requirements.

Third, regulatory differences would give financial institutions incentives to engage in regulatory arbitrage. This can lead to an accumulation of under-regulated activities and put the whole financial systems at risk.

Lax regulation in one country can create conditions for inadequate regulation and contagion throughout the world. Whatever the future relationship between the UK and Europe, a strong commitment to international regulatory cooperation and internationally agreed standards should underpin it.

We very much hope to continue working with all our partners internationally, but this is not only in our hands. What is in the hands of the EU, is to preserve recent reforms and firmly uphold our prudential framework. This is an achievement of which we can be proud. It has helped put financial services back where they belong; at the heart of our economy. It has helped to restore the stability we needed to focus on a positive agenda. On work to deepen our capital markets by building a Capital Markets Union. And our efforts to support investment, growth and jobs.

For all these reasons, the EU will uphold the reforms introduced to protect financial stability in Europe. And we will be ready to take the necessary measures to protect and strengthen these achievements. Based on strong common international cooperation, the EU has been very open to recognise that our international partners' rules are equivalent and achieve the same objective as ours. But these findings depend very much on the specific conditions of individual sectors and country at the time when the decisions are made. If these conditions change, we will have to reassess the situation.

Ladies and gentlemen,

Europe has come a long way since the Reformation. Our societies are immeasurably more sophisticated. Our economies and financial systems are immensely more complicated: integrated into a broader system of international supply chains. But as we ponder the challenges of the modern world and seek to work with our international partners to overcome them, we would do well to remember the values the Reformation period helped to shape: rational thinking, tolerance, solidarity and openness. And to build on more recent reforms put in place for good reason after a huge financial crisis. As we strive to build a better future, let us not forget the past.

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