

Financial Sector Reform in Europe: Next Steps & Implications for Morocco

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Tidal Wave of Regulation

- Systemic financial crisis / fragility since 2007
- G20 Initiatives from November 2008
- Larosière Report February 2009
- Banking Union from June 2012
- Additional European Commission initiatives

G20 Initiatives

- Basel III
- Banking resolution / “ending too-big-to-fail”
- Derivatives
- Credit rating agencies
- “Shadow banking”

“de Larosière” Reforms

- Three European Supervisory Authorities
 - European Banking Authority (EBA) in London
 - European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt
 - European Securities and Markets Authority (ESMA) in Paris
 - Started on January 1, 2011
- European Systemic Risk Board (at ECB)
- “Single Rulebook”
 - e.g. Capital Requirements Regulation

Banking Union

- **Incompleteness of Maastricht Treaty**
 - Single Market & Single Currency incompatible with banking policy remaining only national
 - Mismatch exacerbated by euro crisis 2011-12
- **Single Supervisory Mechanism**
 - Supervisory Board within European Central Bank
- **Single Resolution Mechanism**
 - Single Resolution Board (SRB) in Brussels
 - Single Bank Resolution Fund from 2015
- **No full fiscal backstop = “banking half-union”**

Additional Initiatives

- Executive compensation
- Credit rating agencies
- High-frequency trading
- Short selling
- Financial Transaction Tax
- Audit market
- Separation of activities within banks

Next Steps

- Crisis resolution
- Regulatory: Banking & Markets
- Institutional (EU level)
- Global agenda

Crisis Resolution

- ECB Comprehensive Assessment
 - Asset Quality Review (AQR)
 - Stress test with EBA
- Ensuing (or proactive) recapitalization
- Restructuring of “problem banks”
- Success (return of trust) appears likely
 - Favorable market conditions very helpful

Regulatory: Banking

- “Structure”: convergence with US?
- Capital: compliance with Basel III?
- Adjustments on resolution regimes
- Single insolvency framework?

Regulatory: Markets

- Market infrastructure: integrated oversight?
 - Banking Union Area (ECB), or Single Market (ESMA)?
- Accounting enforcement and Auditing
- Non-bank intermediation
 - Insurance
 - Securitization
 - Diversity of financial system

EU-Level Institutions

- European Commission no longer “alone at the top” as it was pre-crisis
- Relationships and clarification of competencies
- Governance adjustments
 - especially ESMA?

Global Agenda

- Evolution of financial bodies since 2008
 - e.g. Financial Stability Board, Basel Committee, IMF
 - Michael Froman (Sep. 2013): “EU often only recognizes standard-setting bodies where EU members cast the bulk of the votes”
- Impact of banking union / integration
 - Representation
 - Influence?
- e.g. Basel standards
 - EU champion of Basel II – but laggard on Basel III?
 - Future role of ECB

Implications for Morocco

- Stronger European financial system
 - More cross-border integration, including M&A
 - Better supervision
 - Greater diversity of financing channels
- Regional Context
 - Middle East & North Africa
 - Sub-Saharan Africa

Thank You For Your Attention

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