

Brussels, 22 March 2012

Hon. Tim Johnson, Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510
U.S.A.

Hon. Richard Shelby, Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510
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Dear Chairman Johnson and Ranking Member Shelby,

I write on the occasion of your Committee's hearing on "International Harmonization of Wall Street Reform: Orderly Liquidation, Derivatives, and the Volcker Rule." This is an important matter and I am pleased that your Committee is attending to it carefully. I respectfully ask that this letter be noted during your hearing and entered into the official Committee record.

As the Secretary General of Finance Watch, the leading financial reform advocacy organization in Europe, I wish to offer several observations regarding how American efforts on financial reform are viewed here in Europe and how European financial reform efforts are affected by what you do in the United States.

In the simplest terms, let me assure you that European financial regulators and national governments are fully committed to adopting the critical elements of the financial reform agenda set out under your leadership in the Dodd-Frank Wall Street Reform and Consumer Protection Act. These include higher capital requirements across the banking system; mandatory clearing, transparent trading, and margin and capital for derivatives; regulation of hedge funds and private pools of capital; orderly resolution for failing firms; reform of credit rating agencies; shadow banking; retail investment products; and possibly structural reform depending on the conclusions that will emerge from the work done by the High-level Expert Group on structural reform of the

E.U. banking sector recently appointed by Commissioner Barnier and led by Erkki Liikanen. American determination to move these issues forward has been fundamental, and the Dodd-Frank Act began building the foundation for a safer, more stable financial system. It is essential that you press forward with these urgent reforms.

It is true that as we move toward a more modern regulatory regime, some segments of the industry will have to change. Certainly, those who must change have been vocal in letting legislators and regulators know of their concerns. They have done so in Europe as well as the United States, and their arguments have been the same in both places. In the U.S., they say the Europeans are not following your lead and U.S. rules will put U.S. firms at a disadvantage. In the E.U., we hear that the U.S. did not adopt Basel II and will not finalize their other rules and that Basle III will put European banks at a competitive disadvantage as it favors the “American banking model”. You know as well as I that these arguments do not stand – unless industry succeeds in convincing regulators and legislators on both sides of the Atlantic to slow down or stop needed reform. I strongly urge you not to let that happen.

Certain banks in the U.S. augment their arguments with a threat of flight to Europe or even Asia, where supposedly lower standards and bigger opportunities for risk-taking would make for a more attractive banking environment. These threats fool only the uninformed for a number of different reasons: firstly, certainly for Europe, the assertion of lower regulatory standards is not founded; secondly, major banks take on a national characteristic, and their ability to pick up and flee to a foreign capital is highly limited; finally, it is ironic to also hear the very same argument put forward by banks to European authorities when they threaten to leave the E.U. to operate exclusively from the U.S. or Asia. Despite their public threats, big banks simply cannot extract themselves from their national backers.

Let me also emphasize that the E.U. and the U.S. can be on the same page without reading exactly the same lines. Our two jurisdictions have long had somewhat different approaches to regulating a range of financial activities – the most notable example being the period during the Glass-Steagall Act enforced separation of investment banking from commercial banking. Academic research suggests this separation actually helped make U.S. investment banks more competitive. So those who would argue that certain differences in approaches to regulation will make one nation’s banks less

competitive (whether it be the U.S. from the Volcker Rule, Switzerland from much higher capital requirements and contingent capital, or the U.K. with Vickers Commission ring fencing) should carefully consider historical precedent. Moreover, we are convinced that the enormous economic and social cost of financial crises, and therefore the benefit of financial stability, should also be considered.

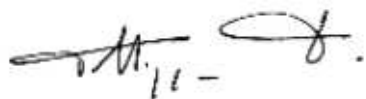
Indeed, industry's arguments continue to overlook the competitive advantages arising from a sound banking sector. If market disclosure is properly robust, well-capitalized banks that avoid high-risk activities and conflicts of interest will attract more demand from investors, customers, and depositors. Corporate treasurers will think twice before putting large deposits with banks that take high risks, and investors will think twice before conducting trades with institutions that bet against them.

The recent failure of MF Global helped remind us of the grave dangers that highly-leveraged bets can pose to a firm. Fortunately, because MF Global was a small non-bank of little significance to the broader financial system, the consequences of its mistakes did not ripple far. If, however, the U.S. were to not press forward with implementation of the Volcker Rule, these very same activities would continue eating away at the integrity of the *global* banking system, endangering not only your large firms and threatening much more dire consequences for the broader economy, but also putting intense pressure on European regulators not to address the issue of structural reform of the E.U. banking sector.

From my work with European regulators, I am convinced that Europe has no intention of becoming a safe haven for banks that engage in unwise and inefficient risk-taking. On the contrary, provisions such as the Volcker Rule offer a useful model for us to build on as Europe, too, seeks to strengthen its banks and safeguard its economies. Indeed, despite what you may hear from some banks, there is now a real push in Europe to join the United States in structurally reforming our financial system. As clearly stated in its mission statement, the High-level Expert Group on structural reform of the E.U. banking sector will be carefully studying the work you are doing in the U.S. on the Volcker Rule and similar efforts in the U.K. and will be making recommendations on reforms of E.U. banking structures that could contribute to the objective of establishing a safe, stable and efficient banking system serving the needs of citizens and of the E.U. economy. This is a topic that Finance Watch will be following very closely.

The legislative and regulatory process in Europe has sometimes been described as being slower than in the U.S.. The reality is that, due to a different institutional and legal environment, it takes a different form. I would also note that nearly two years since the passage of the Dodd-Frank Act, many of your most critical reforms are yet to be finalized by the regulatory agencies when the E.U. has already adopted a number of important legislations. I should hope that Europe does not beat America to the finish line as it did with Basel II. In conclusion, I would like to make mine the advice delivered by Commissioner Barnier during a speech in Washington in 2011: “I have heard calls here in the United States that the Dodd-Frank implementation should be postponed or weakened.... Delay is not the answer. Europe is committed. We will deliver. And I call on the United States to do the same.”

Best regards,

A handwritten signature in black ink, appearing to read 'Th. Philipponnat', with a stylized flourish at the end.

Thierry Philipponnat
Secretary General
Finance Watch

cc: Members of the Senate Banking Committee