

## European Parliament

### Committee on Economic and Monetary Affairs

Public hearing, Tuesday 16 June 2015 – 15:00-16:30 – Room József Antall 4Q1

#### ***Stocktaking and challenges of the EU Financial Services Regulation: impact and the way forward towards a more efficient and effective EU framework for Financial Regulation and a Capital Markets Union***

#### **Opening statement by Christophe Nijdam, Secretary General of Finance Watch**

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Mr Chairman, Mr Balz, Honorable Members of Parliament, Ladies and Gentlemen:

Thank you for inviting Finance Watch to share with you some of civil society's viewpoints seen from a public interest angle on the most important subject of stocktaking and challenges in the EU Financial Services Regulations.

I would like to make six points today:

1. The existence of possible small overlaps is a minor cost to pay compared to the benefits versus costs of insufficient regulation.
2. The European Commission's comprehensive review of the financial regulation agenda in 2014 found that all individual legislative initiatives were positive.<sup>1</sup>
3. The current stocktaking exercise should not be used to backtrack and alleviate regulation.
4. On the contrary, this exercise is a welcome opportunity to assess the gaps and inconsistencies in financial regulation to complete the job.

Most post-crisis regulations are micro-prudential, at the level of individual institutions. They were not macro-prudential, i.e. looking at the system as a whole to make sure that institutions do not run into trouble at the same time. There are still risks out there for financial stability, for citizens and taxpayers. Just look at the volatility in the market in the last few weeks - with interest rates close to zero, in unknown territory about when and if rates will go up.

So far we have made regulation in firefighting mode. On a more general basis, regulation should be principles-based to be more robust.

We have probably not done enough to protect consumers and we are left with a few inconsistencies in sector regulation, for instance differences in consumer protection, differences in transparency, differences in sanctions. We need more horizontal coordination in this aspect of regulation.

5. The idea that the mission is accomplished and that we need now to focus on growth and jobs is dangerous. Why? Because it insinuates a false opposition, a trade-off if you prefer, between regulation and growth and jobs.

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<sup>1</sup> Commission Communication 'A reformed financial sector for Europe' 15.5.2014, COM(2014) 279 final



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6. Financial stability is a pre-requisite for sustainable growth. As Andrea Enria, the head of the European Banking Authority, said, the main contribution that finance can make to growth is to not create financial crises.<sup>2</sup>

Also, look at the increasing number of research studies from institutions like the IMF, OECD, BIS, etc. which point out that too much finance is in fact an impediment to growth.

As a conclusion, let me say that at a time when the political momentum is being shifted from *"we need to regulate shadow banking"* to *"we need to promote shadow banking"* via Capital Markets Union, it is all the more urgent to complete the job.

How? By regulating shadow banking.

Why? To ensure financial stability and reduce the risk for taxpayers and consumers.

These are the real prerequisites to restore consumer confidence, such confidence being the pillar of consumption demand. Which in turn is the key driver for growth, because consumption is two thirds of GDP.

Thank you for your attention.

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<sup>2</sup> *"The main lesson from the crisis is that the greatest contribution that the financial sector can give to growth is to avoid this expansion of credit and then the building up of bubbles that, when they burst, have a massive effect on the real economy"*, European Commission Conference on Capital Markets Union, 8 June 2015