

**SPEAKER'S CONTRIBUTION TO THE NEWSLETTER FOR THE EUROFI HIGH LEVEL SEMINAR,
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As the rules of the game for the global financial system are remade, the EU could not be a more important player. Its Directives and Regulations are essential both to the credibility of the new global standards, and in leading the way on some fronts.

One such front is resolution, where the EU has been in the vanguard of serious policy thinking about how to resurrect the largest and most complex firms when they hit distress without taxpayer solvency support. Implicit guarantees are a threat to an effective single market. The solution unavoidably means putting losses on debtholders, since there is really nowhere else for the losses to go. Bail-in, involving a reconstruction by resolution authorities of a banking group's liabilities and capital structure, is one way of achieving this. But all other resolution technologies obviously have the same effect. I say that because anyone nervous about bail-in should not entertain a notion that other resolution methods are different, or would have a smaller market effect.

On another front, the EU has a terrific opportunity to be a – maybe the – global leader on macroprudential regimes. Although this field lies between the natural habitats of various of the Commission's directorates, it should not let the opportunity slip. This is a prospect that, in truth, makes some microprudential supervisors nervous, as it may invade their space. And it raises legitimate questions about how it can be squared with a single rule book for the Single Market. In reconciling these issues, we should not forget that there are as many as 15 million people unemployed in the western world due to a financial crisis that is now nearly five years old. We mustn't fail our citizens due to our local interests.

The essential facts are twofold.

First, no one can put their hand on their heart and swear that the single rule book for minimum standards will prove fit for all seasons. Those who frame the micro regulatory rules are not clairvoyant. Sometimes supervisors will, for example, need tougher requirements for a while to head off exuberance that threatens to tip over, once a bubble bursts, into instability. This is not about waivers from the minimum standards.

Second, this is by no means important only for the UK given our international financial centre. If I may be permitted to say so, the euro area also needs a regime for macroprudential policy at the level of national authorities. As Jean-Claude Trichet has said, while the monetary union is complete, economic union is not. Local credit booms will eventually recur. In the absence, by definition and by choice, of local currency flexibility and monetary policy, such euro area members need macroprudential tools to

lean against and contain local credit problems. That is in everyone's interests. It would have helped in the past.

A harsh lesson of the crisis is that some new discretions are needed for member states. That can, and should, be achieved without threatening the integrity of the single market. Drawing on the opinions on CRD4 from the ESRB and the ECB, the EU should seize this and, at the same time, be a global leader in designing a framework for macroprudential policy.