

The UK: a permanent euro area outsider

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Road map

- **The UK and Banking Union**
 - What is Banking Union?
 - Why Banking Union?
 - Why the UK did not join?
- **The UK and EU internal and external financial regulation**
 - The UK regulatory preferences
 - The UK and third countries
 - The UK and international regulatory fora

The UK and Banking Union

What is Banking Union?

- single framework for banking supervision → **SSM**
- single framework for managed resolution of banks → **SRM**
- common deposit guarantee scheme → ?
- common backstop for temporary financial support → **ESM (?)**

Why Banking Union?

'Financial trilemma' (Schoenmaker 2011)

- financial stability
- international banking
- national financial policies

→ global financial crisis

'Inconsistent Quartet': trilemma + single currency (EMU)

- single currency reinforced banking integration in the euro area (incl. purchase of sovereign debt), no 'official' LLR in euro area

→ sovereign debt crisis

Inconsistent Quartet (Apologies to Padoa Schioppa)

Cross-border
banking

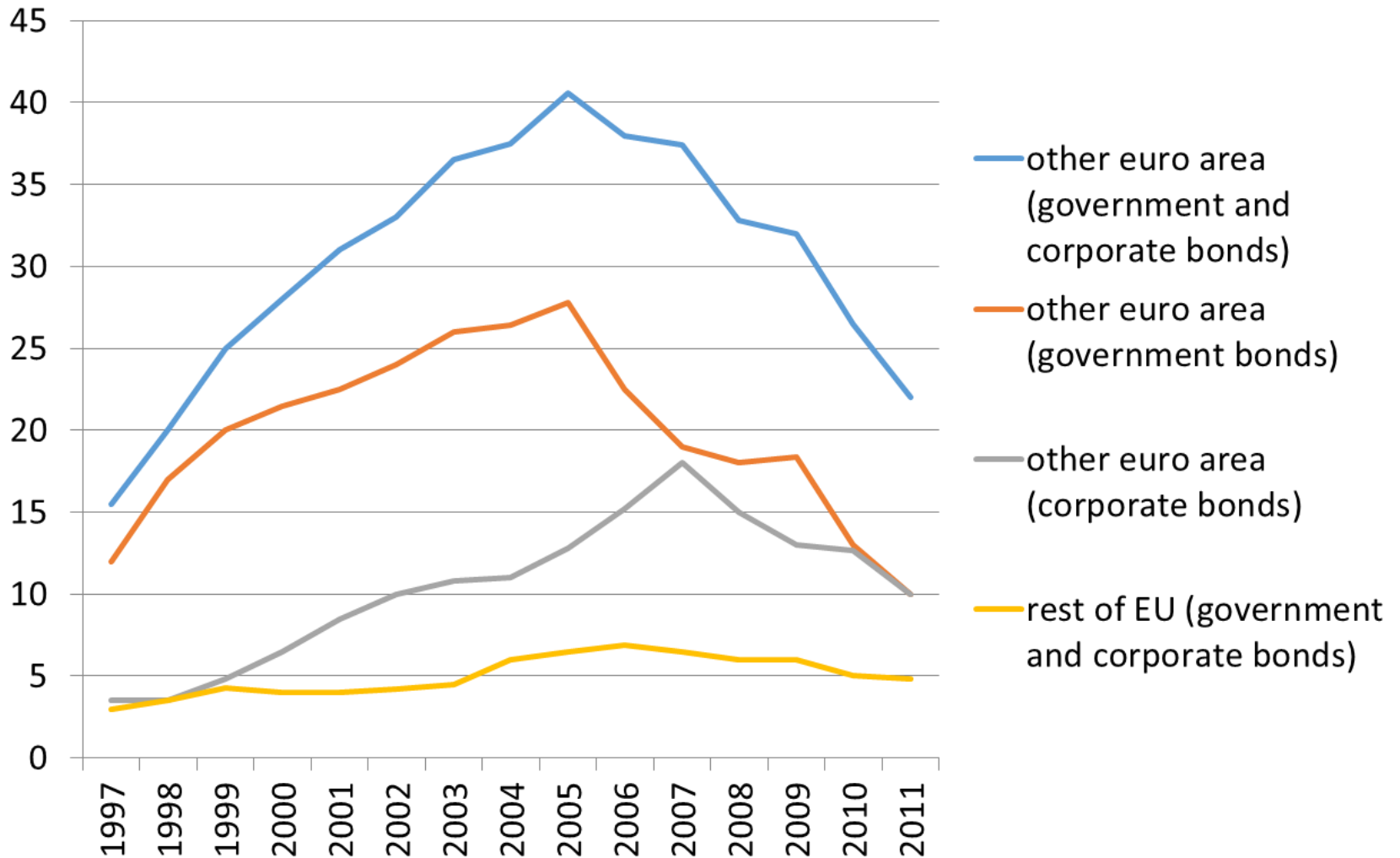
Financial Stability



Euro area
membership

National
policies

Cross-border bond holdings of European financial institutions (*% of total*) (06.2012)



Sovereign Debt Holdings, Q1 2011

FIRST QUARTER 2011

		ISSUER OF DEBT (IN MILLION USD)					TOTAL	
		ITALY	SPAIN	GREECE	PORTUGAL	IRELAND		BELGIUM
BANK NATIONALITY	France	105,045	32,581	13,401	8,611	2,855	51,529	214,022
	Germany	50,982	29,389	14,080	8,799	3,191	11,278	117,719
	United Kingdom	12,734	8,629	3,961	1,805	4,577	5,258	36,964
	Belgium	17,294	3,793	1,873	2,288	695	*	25,943
	Spain	10,699	*	502	7,250	157	1,427	20,035
	Italy	*	5,798	2,442	612	588	413	9,853
	Japan	29,772	10,352	164	1,092	1,097	9,396	51,873
	United States	14,380	6,060	1,936	1,269	1,741	11,400	36,786
	Switzerland	5,201	1,485	529	832	111	2,057	10,215

The UK and pre crisis EU financial regulation

- The UK: largest financial sector in the EU
- The City: one of the two main international financial centres (open and internationalised, rather than Europeanised)
- UK's preferences for light touch financial regulation, Anglo-Saxon coalition versus Continental coalition
- Often UK-US light touch alliance in international regulatory fora

The UK and post crisis EU financial regulation

- Preferences (partly) revised, support for tight capital requirements but opposition to AIFM
- UK's support for market making 'equivalence rules' concerning third countries
- UK –US alliance in some international regulatory fora (eg BCBS)
- But transatlantic regulatory disputes (UK sometimes sided with the EU)
- Issue of impact of Banking Union on EU financial regulation