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P R O C E E D I N G S

MR. ELLIOTT: It's really an honor to be able to introduce Nadia Calviňo. I've known her for a few years now and she's a very impressive civil servant at the European Commission, and a very important one. She is the deputy director general for DG Market, which I think there are enough specialized people here that most of you actually know what that is, but that's the Directorate General for Internal Markets and Services, and half of DG Market focuses on services, including financial services in particular, and Nadia has all things to do with financial services run through her within the European Commission. I know that she is an important advisor to Jonathan Faull, the director generate, and to Michelle Barnier, the commissioner. You'll see when she talks she actually knows what she's talking about, which is always good, and she certainly has been doing her bit to help foster cooperation across the Atlantic on financial regulation as we make the important reforms.

You have her bio. You'll see that she is both an economist and a lawyer by training and that she was a very successful civil servant in Spain before moving to the European Commission. Probably about all you need to know at this point, so let me stop talking and turn it over to Nadia. The way we're going to do this is she has some remarks to make. I will then have a little conversation with her, and then we'll turn it over to you, the audience. And so, Nadia.

MS. CALVIÑO: Well, thank you very much, Doug, for those kind words of introduction, and also thank you very much for giving us the opportunity today to share some thoughts with such an informed and influential audience on what's going on across the Atlantic in the field of financial regulation, what's going on, and what we would like to happen going forward, how we want these transatlantic cooperations to move ahead in the coming months in the coming years.

As you have already reflected very briefly, in the last years, both the U.S.

and the EU have launched a major overhaul of the financial regulation. The objective was to create a new regulatory framework that would provide for stable, transparent, and efficient financial markets. As a starting point, we always have to acknowledge that the financial crisis is global. The financial crisis originated in the U.S., but very soon it turned into a big problem in the EU, and likewise, the recent sovereign debt crisis in the EU had a very direct impact in the U.S. The responsibility for building these new regulatory frameworks is therefore global regardless of our nationality. And in that sense, we've always taken the approach that there is no merit in preaching and teaching, telling each other, "Oh, we know better. Oh, we know how to do it. You just have to copy our rules."

We are strongly convinced that we must move on and work together. This is why we have invested so much effort as you rightly pointed out in designing the G-20 global reform system. This is why we're investing so much and making so much effort in trying to bridge the gaps that exist across the Atlantic and teaming up with our U.S. counterparts to try to build this new regulatory framework for the world.

I intend to focus these introductory remarks, and I will be very happy to take your questions afterwards, in giving a brief overview of where we are in the financial regulatory reform on both sides of the Atlantic and then trying to touch upon the possible value added that putting these issues into the T-TIP negotiations would have from our point of view.

Starting with the state of play of financial reform on both sides of the Atlantic, as you know very well, the U.S. acted very fast with the adoption of the Dodd-Frank Act back in July 2010. We should not forget that the Dodd-Frank Act implements G-2 commitments. This is a point that is sometimes overlooked over here and not sufficiently stressed, but the U.S. was quite fast in actually trying to reach these global standards and implementing them on this side of the Atlantic. And that way, Dodd-Frank has become a brand name for financial regulation in the U.S. It encompasses many

different areas of financial regulations and sets up a framework for the rulemaking that has been taking place afterwards.

Indeed, the Dodd-Frank Act needed to be flushed out by the regulators, which have been very productive in the last years in trying to develop the detailed rules for the various parts of the statute. Our understanding -- and we've been looking at these detailed implementations with great care -- our understanding is that the regulators are now, more or less, halfway in the implementation of Dodd-Frank. The work done so far is quite impressive, but still, we have to acknowledge that seven years after the beginning of the crisis we haven't finished with the detailed rule-making that will allow for the full implementation of Dodd-Frank here in the U.S. And this makes sense because if you get it wrong, these detailed rules can be extremely damaging, so one has to be very careful not to have unwanted, unexpected consequences and negative side effects of regulation. Getting things right and avoiding unintended consequences takes time and the same happens on the other side of the Atlantic.

Let us look at Europe. We have also embarked under the leadership of Commissioner Barnier that was referring -- in a historical, we have embarked on a historical overhaul of financial regulation. Our primary goal was to implement faithfully our common G-20 commitments in Europe, and to achieve that, we needed to tackle a number of not divergent but different approaches. We needed to bridge the gaps which exist in the different financial regulation traditions in the 28 member states. This is far from obvious because we have a more complex structure than the U.S. We are moving towards a federal construction, but we are not yet there, and it means that sometimes we have to start from very different perspectives of what needs to be done in the field of financial regulation.

This is not easy, and we've had to sequence our reform efforts. We have not been able -- we don't have that tradition -- we have not been able to do a master

piece of legislation such as Dodd-Frank that would encompass all the different things that needed to be done in Europe. First, we reformed supervision. We created three new supervisory agencies to deal with banks, markets, and insurance companies to ensure that there would be appropriate cooperation at the supranational level, what here you would call at the federal level. In our case, at the European level.

Secondly, we put forward a significant number of legislative proposals to implement the agreed global standards. Work is most advanced logically in the field of banks, bank prudential rules in particular, and derivatives legislation. In contrast to the U.S. approach, we have prepared, as I said before, a significant number of initiatives, and I have to show you this leaflet which my commissioner always shows whenever he comes over but he does the same with his European counterparts. You shouldn't feel that it's only to the U.S. and he comes and shows this color table, because this is our road map in the implementation of this regulatory reform program. And it is extremely ambitious in terms of the number of laws that need to be passed.

Now, my aim in life, of course, is to turn all this into green. We are not there yet, but today we have adopted a major piece of legislation, and therefore, there will be another yellow here, which means we have already proposed the legislation. In the European Commission, we take the initiative to legislate but then there are two co-legislators -- the European Parliament and the Council of Ministers where the 28 member states are represented, which need to agree on every piece of legislation.

So in the last four or five years, we've been embarked on these very ambitious reform projects, and we are very well advanced in these projects. Many didn't think that we would be able to achieve as much as we have done, and still we have a number of months to go to finish before the elections take place in the EU.

Now, to be honest, as I was saying, at times it has been quite challenging to design and to coordinate this reform process with the 28 specificities, a

very heterogeneous financial sector in the different member states, and you have to build it with a complex puzzle of different kinds of rules and regulations which are done some of them at the European level. Some need also to be implemented then at the national level.

But now, when we are approaching the end of the process and we see all the pieces of the puzzle together, I can say that we are quite sure and quite reassured to see that the Europeans regulatory framework for finance will be as robust as we originally wanted it to be. Of course, our task is not yet finished. We need to turn all of this into green and then to implement it at the national level. There are secondary legislations that will need to be rules. Regulations that will have to be done by the regulators, and we, of course, all of us, have to remain vigilant for risks which maybe have not been fully tacked until now. For instance, in the field of shadow banking. But what we have achieved is quite impressive in the last years, and the last months have been particularly intense in this regard.

Let me briefly mention the three most recent developments to give you a better idea of where we stand in Europe. In December last year, the European Parliament and the Council, the two co-legislators, reached an agreement for the creation of a new European framework for the recovery and resolution of banks, as well as deposit guaranty schemes. These new rules will allow Europe to effectively manage and resolve crisis in the banking sector without needing to have recourse to public money which has been the case until now because we lacked that legal framework to do so.

The state-of-the-art bailing principle that we have introduced is one of the key features of our proposal, and there will be also common rules for the deposit guaranty schemes. This is the first time that such an ambitious package of harmonization has taken place at the European level. So with these laws, the 28 member states and Europe will not only have implemented the G-20 commitments, but

will for the first time have mechanisms that allow them to deal with banks which are active across the national borders.

So 2013 ended very well. This agreement was achieved really just before Christmas. And 2014 has also started with a very good -- on the right path. Since just two weeks ago, we also achieved a major political agreement between the two co-legislators on what is known as MFID. That is the Rules for Securities Markets. Europe has now agreed to a revised market structure framework, which closes loopholes and ensures that trading of equities, bonds, and derivatives will take place in appropriately regulated platforms with pre-trade and post-trade transparency. We have strengthened supervisory powers and we have met the G-20 commitments in these fields, also establishing a framework for position limits for commodities derivatives and other rules to ensure the integrity of markets and fighting market abuse.

Finally, the last, most recent development has been today, thanks to the time difference, this has taken place some hours ago in Europe but I'm able to deliver the news to you hot from the oven, is that the European Commission has made the legislative proposal of a regulation to deal with structural reform. This is to establish a common framework for how banks should be restricted if needed. In particular, this reform is trying to tackle one of the remaining problems that was not fully addressed by the long list of projects that I had indicated a moment ago. It's a field where the U.S. is clearly more advanced because you've been working in this area for already decades. And it's the area of what to do with banks that are too big to fail, too big to be resolved, too big to be saved, too big probably to be supervised and managed even.

This proposal includes two different legs. One will be a prohibition of proprietary trading, which is similar to the Volcker Rule but with a different, narrower definition of prop trading, and the second leg is a framework which establishes the criteria that would allow supervisors to determine the need to separate other market activities,

other trading activities different from purely -- what we can purely consider prop trading.

So this regulation is going to establish these rules. It's going to create a number of presumptions so that the largest banks in Europe are going to be subject to a very tight scrutiny, and in a period of some years we have proposed that by 2018 we will see what the legislative process brings. They will be subject to this need to separate some activities, to separate the risks, and finally, to stop benefitting from the implicit public guarantee derived from the fact that they are also deposit-taking institutions.

This is probably one of the last pieces of the puzzle which was missing, if not the last piece of the puzzle that we are turning into yellow today, and despite the fact that maybe it won't be possible to have a political agreement before the elections, that is only three months' time, so frankly, the co-legislators in Europe have been very efficient in this area but that would be quite heroic for such an important piece of legislation. But even if that would not be possible, for us it was very important to put it forward to signal that we were aware that there was a piece of the puzzle missing, and we wanted to give clear guidance of where we thought things should head towards because a number of member states were already adopting rules in the field of structural reform in banking.

So structural reform is probably this last piece of the puzzle, and together with this proposal today also we have proposed a number of measures to increase transparency in shadow banking, in particular in the field of securities lending and resecuritizations. In this area, we are probably leading by example because these are things which are being discussed at the G-20 level, but no other jurisdiction in the world has already moved ahead to implement these increased transparency requirements in the field of shadow banking.

So, we now have in place, we think, our regulatory framework that will enable our financial sector to contribute again efficiently and safely to growth and job creation in Europe. This framework has been guided by the G-20 agenda, but in many

areas, the European reform goes beyond the original commitments, and we also in some areas are applying stricter rules than other parties.

Let me give you just a few examples. One obvious example that I'm sure you're aware of is the field of renumeration. We are convinced that one of the problems that led us to the crisis was the existence of wrong incentives and excessive restaking in financial institutions derived from these wrong incentives. That is why in Europe we have adopted some rules which have to do with the regulatory framework, trying to ensure that the right incentives are created.

A second area where we've gone beyond what other jurisdictions are doing is requirements on CCPs, central clearinghouses and margin requirements for OTC derivatives and for noncleared derivatives. Our requirements are stricter than other jurisdictions and also the scope of application of these requirements because we apply them to all CCPs, not only the largest, the systemic ones.

In the field of MFID, in the field of securities markets, we have also introduced a comprehensive regime to deal with high frequency trading. This is an area where probably we have benefitted from the fact that our laws have been made a bit after Dodd-Frank because there have been a number of problems and developments which we have been able to tackle and that maybe were not so evident at the beginning of the crisis. This high frequency trading is one of them where we have profited from this slight delay for tackling it in a very clear manner in our regulations and our directives. A similar case is benchmarks. As you know, there have been a number of scandals around the bid rigging of the interest rate benchmarks such as LIBOR and DELIBOR. We have taken measures to establish a new regulatory framework for benchmarks, and we are in that sense moving ahead of any other jurisdiction in the rest of the world.

On shadow banking, we have also made proposals regarding money market funds which are more ambitious in terms of the requirements of what any other

jurisdiction has done or what we understand the U.S. intends to do. Here I have to put this slight caveat since the rules in the U.S. are not yet published. We will be discussing that tomorrow I'm sure in our dialogue with our counterparties.

With respect to securitization, the EU risk retention requirements have been enforced already since 2011, and we have also going beyond the IOSCO standards when it comes to credit rating agencies. We have enacted three different regulations to establish a very tight framework trying to avoid the conflicts of interest and the problems that led us to the crisis and that we have been also seeing in the field of sovereign ratings in the last years.

So why have I gone through all these examples? Because I can understand that there are some that may be interested in suggesting all of Europe is lagging behind. They have lower standards than us. They're slower than us. They're not interested in regulating. I can understand that some are interested. I would really urge you not to take these assertions at face value and go a bit deeper into the reality because that's not the way we see things. We actually think that we are taking very ambitious steps in a very complex institutional framework to try to build up a very resilient financial sector in Europe and in the world as a whole.

The truth is, and that has been my feeling in the three years that I've been responsible for financial regulation, the truth is that the EU and the U.S. share the same objectives. We want to have sound and resilient financial markets. In some areas, the EU has developed a stricter approach. In some others, we have been following the example of the U.S. We are not interested in engaging in an exercise of you're not doing as much as I am or I'm moving ahead faster than you are. What we're interested in is building a good cooperation, a transatlantic cooperation that ensures, that allows us to continue to lead the world in this area.

As we all know, regulation is only one part of the story. Enforcing the

rules through strict and consistent supervision will be equally important, and ensuring that all major jurisdictions around the globe implement the new rules is, of course, crucial because if there is one thing that we have learned through the crisis, it is that the problem can build anywhere in the world and can become absolutely lethal in any other jurisdiction. Today's world is interconnected, and problems which build up in a dark corner in a country which maybe is very far from here can have just an important impact as anything that can be happening on the U.S. soil.

That is why the European Union is taking a very active stance in the G-20 FSB implementation reviews. Such reviews we think are essential to ensure that everybody feels the pressure to implement the new standards, and in that sense I hope that the U.S. authorities will also play the game and submit themselves to these kind of peer reviews, and in particular, the G-20 IOSCO review of money market fund standards.

Before turning to the T-TIP, let me briefly update you on the banking union process, which is one of the major political developments which are taking place on the other side of the Atlantic and I presume you don't follow it on a daily basis, but just to give you a bit of a heads-up of where we are. Because as you surely know, one of the lessons that we learned from the sovereign debt turmoil that we're just starting to get out of is that our economic and monetary union, the building of the euro, is vulnerable to shocks and cannot be stable without a unified system for the supervision and resolution of banks. That is why we have created a new supervisor for the almost 6,000 banks in the Eurozone, with the European Central Bank. The laws have been passed. The European Central Bank is starting to put this in place, and we hope that by November 2014, this new supervisory system will be up and running. The European Central Bank will assume direct responsibility for around 140 largest banks, but will have very direct powers also over the close to 6,000 I was mentioning a moment ago, together with the network of national supervisors.

The ECB is preparing for this new role, and one of the things that they're undertaking is the launch of what we call the asset quality review. That is a very in-depth analysis of the quality of the assets in banks' balance sheets. They want to be sure that those banks that pass under their reasonability are well analyzed and are in good health. This is a major exercise that's going to be conducted over 12 months, and we are quite convinced that this exercise, together with an additional stress test that will be done by a European Banking Authority for the 28 member states. This will help restore the credibility on the European banking sector. It will give us a very full and detailed picture of the health of the banks, not only looking at capital ratios and capital definition, but looking at the quality of the portfolio of assets in the bank's balance sheets.

It's an important exercise, but I would like to stress that this is not the first exercise. This is not the beginning of a repair and cleaning up process. This is the end of a very long process because since 2008, European banks have already substantially strengthened their capital position through both public, capital injections, and fortunately, on the issue of new equity to private shareholders too. According to our calculations, total equity of European banks has increased by around 500 billion euros between 2009 and 2012. And the FDIC has issued a comparison of the capital ratios across the Atlantic, coming to the conclusion that they are fairly similar for U.S. and European banks once you eliminate a number of distortions that have to do with the different accounting rules on both sides of the Atlantic.

So once we have a single supervisor in place, we need to have also a single resolution authority. This is a field where the U.S., as I mentioned before, is clearly more advanced. You have had the FDIC, which is a very credible, very strong institution, since the 1930s. And that has allowed you to at least have a framework to deal with banks prices. Maybe until now not really the really big banks, but in Europe we did not have a federal system. We did not even have national systems to deal with the banking

crisis until now.

Now, in the Eurozone we are now moving ahead with this very ambitious second element of the banking union, the creating of a single resolution authority. It's a very significant move in terms of putting together powers which until now were considered to be really part of the national sovereignty. We are talking about decisions about what to do with banks which are in trouble and how to apply this baleen and how to create a common insurance, a single resolution fund which will be funded by the private sector and which will have to ensure that there is appropriate funding for the restructuring process.

Now, we have managed to have a political agreement inside the Council of Ministers, just before Christmas also, a very hectic period as I said before, and now we are in the middle of what we call the triloves. That is bringing together the two co-legislators. Given the political sensitiveness of these issues, it's not an easy exercise. It's a quite intense debate that is taking place, but we have done it before. I am quite optimistic that we will manage also to have this political agreement before the end of the term of this commission and of the European Parliament. And with that we will have set an important piece to create this banking union and to ensure the stability of the Eurozone and of the European Union as a whole in the future.

Okay. Now that I've given this helicopter view of what's going on in terms of regulation in the U.S. and mostly in Europe, let me turn to why we both should be working together in the field of financial regulation and what we expect from these T-TIP negotiations.

Now, in July 2013, the EU and the U.S. launched negotiations on a Transatlantic Trade and Investment Partnership. This is not a trade agreement. This is a partnership that we want to build together. And to us this meant that we were going to go beyond the traditional trade issues and in fact, the discussions were going to focus on

regulatory cooperation. This is the case in a number of areas from chemicals to health, pharmaceuticals, and others. And we are convinced that this should also be the case in the field of financial services. The main added value of the agreement will be to reduce regulatory friction. That is the official and shared intention of both sides when negotiating the T-TIP. Financial markets are at the heart of our economies and financial regulation in our view should be at the heart of these negotiations. If there is one industry which is globalized and interconnected and where regulatory frictions can harm the wider economy, it is a financial industry. So leaving financial services out of the agreement would be in our view a huge mistake and potentially an error that we will be regretting in the future.

The fact that both the EU and the U.S. are seriously implementing international standards is a good basis for this work. These standards constitute a common platform. They give direction and guidance, but they are not sufficiently precise to ensure coherent legal frameworks which we need for our financial markets to work efficiently and seamlessly. To achieve that, we must work together not only in the broad picture that we agree upon at the G-20 level, but on the fine details of financial regulation. We have to identify differences and eliminate, or at least mitigate the detrimental consequences, be it for financial stability or for market efficiency.

Some of these differences in detailed domestic regulations are deeply rooted in the U.S. and European market structures and they are unavoidable. But others are not, and they cannot be justified on prudential grounds. Inconsistencies are not only significant barriers to trade and investment, but they also undermine the global financial stability that both the U.S. and Europe are seeking to achieve. If our rules are not consistent, we prepare the ground for regulatory arbitrage and for the duplicative application of rules to the same trades to the same institutions. Moreover, regulatory fragmentation weakens the resilience of financial markets and makes it much more

difficult for our economies to recover and grow substantially.

So, in our view, if we don't get together and find a solution, if we don't find a common path forward, we would certainly fall short of the internationally agreed objectives, but also we would like an opportunity to continue to lead the world in this regard. Together, we are obviously stronger when we go to the international discussions.

That is why we're here today, and I appreciate again that Brookings has given me the opportunity to share these thoughts with you. We are here because tomorrow we're going to have our annual -- more or less annual regulatory dialogue with the U.S. regulators and the U.S. Treasury. We will have a full day of discussions as we always have, and we always invest, all of us, officials, we invest our best energies in trying to make the best of these meetings and to discuss very seriously the issues that are at stake. What is the state of player regulation on both sides of the Atlantic and how we can bridge the gaps and ensure that there is a seamless application of the rules?

I hope that tomorrow we will have a renewed sense of commitment towards much greater cooperation, and I hope that we will be able to agree on a very concrete work plan with deliverables and a calendar, a roadmap on those areas where we think that further progress is needed in the short run. The current regulatory dialogue has achieved immense success. It's a great thing that we have this dialogue. Of course, we have it with other jurisdictions around the world, but none is as sophisticated and developed as is our relationship with our U.S. partners. But what we think is that this regulatory dialogue at a technical level has achieved probably the maximum that it can deliver, and in a post-crisis era where we have fundamentally upgraded financial regulation on both sides of the Atlantic, we must also upgrade the mechanisms we have to cooperate with each other. We think that financial regulation is too important to be discussed in informal settings at the lasts minute under market pressure as has been the case I regret to say not so long ago, some months ago only.

That is why we have proposed that the T-TIP establishes a framework for regulatory cooperation in financial services. Our proposal aims at harnessing the accountability and the political push that accompany the T-TIP while leaving the work on regulation to the regulators themselves. Whereas for us this is common sense, I know we know that this proposal has met with a lot of opposition from some in Washington, and our impression is that this opposition may be based on a misunderstanding of the European Union's motives for this proposal.

So let me close by dispelling some myths about what we are proposing and what we are not proposing in the T-TIP.

The European Union proposes to establish a transparent, accountable, and rule-based process which would commit the two parties to work together towards strengthening financial stability. For that to happen we would base our work on a number of principles. We want to work with the U.S. to ensure timely and consistent implementation of nationally agreed standards for regulation and supervision. We want to set a system of mutual consultations in advance of any new financial measures that may significantly affect the other side. We want to jointly examine existing rules that can create duplications, inconsistencies, or unnecessary barriers to trade. And we want a commitment that both jurisdictions will assess whether the other jurisdiction's rules are equivalent in outcomes. These principles would be backed up by specific arrangements for the governance of European and U.S. regulatory cooperation. We would agree on guidelines on these equivalent assessments and commitments to exchange the necessary and appropriate data between regulators.

The ultimate objective of the European Union is to commit to mutual outcome-based assessment of our rules. Should the rules of each jurisdiction have the same outcome, we should be able to defer to the rules of the other jurisdiction. The G-20 has already signaled that that is the path that they want to pursue at the multilateral level.

But I would like to stress that we do not envisage general binding declarations on the equivalence of the entire regulatory framework of the other jurisdiction. We would always need to carry out a detailed assessment of the rules. And of course, regulators will always have the possibility to take necessary measures to protect financial stability. The prudential carve out is here to stay and we want to protect the prudential carve out.

Regulators would only be bound by the principle of good cooperation and would need to take into account the potential impact of the rules on the other party when making a proposal. They would need to factor in these negative implications for the other party and explain the choices made in order to see where the problems can be solved.

So it is clear that we do not want to negotiate within the T-TIP any aspect of substantial financial regulation. The substance of international standards and domestic prudential rules should be discussed by regulators outside the T-TIP. We do not want to influence through the T-TIP ongoing regulatory efforts in the U.S. But what the T-TIP should bring about are stable, effective, and transparent arrangements for us to work together, and that would in a way pave the way towards this transatlantic alliance and more integrated and stable transatlantic markets.

Without this framework, in a few years' time when the crisis has passed from memory, we may end up regulating under purely national considerations and foster the fragmentation of markets with costly consequences for our economies, societies, and people, and worse even, we could be sowing the seeds of the next crisis. So in our view, the benefits of transatlantic cooperation are clear since it would strengthen financial stability, create a larger, more efficient marketplace, and improve the ability of the integrated financial system to provide financing to the real economy.

Finally, this would also have a major impact on financial markets and regulation. As I said before, we would be leading the debate at the worldwide level, and

it would make it easier for other jurisdictions to improve the regulation and supervision in their markets.

Let me conclude. The European Union and the United States have a joint responsibility to create a safe and sound transatlantic regulatory framework for financial services. We have made great progress in the last years. I would like to stress and emphasize this because we have a very good cooperation, the best that we have with any other counterparty, and we have made very good progress. But we need, in our view, to walk the rest of the road together if we want to avoid another major crisis in the future. Our successes and our failure have global impacts as we have discovered in the last years, and we can either succeed together or fail separately, and I don't think I have to tell you which option we prefer.

Thank you very much.

(Applause)

MR. ELLIOTT: So as I mentioned before, I'm going to have a little dialogue with Nadia for 10 minutes or so and then we'll turn it over to you in the audience. So hopefully they'll turn this up before I start asking anything serious.

First of all, thank you very much. I thought that was a very clear speech.

As I know you know, I'm quite supportive of your fundamental concepts with T-TIP and bringing the two sides together, including financial reform in there. My colleague, Martin Bailey and I have written to that effect. But that's certainly not the U.S. Government position. The U.S. still is pushing back against that with a whole series of arguments, arguing that on the one hand it's not really necessary. On the other hand, with our independent regulators it doesn't work. It won't work that way. That there are a whole series of issues that this would actually just sidetrack and slow things down. That there are global processes that should be used instead of trying to do it just across the Atlantic.

So one of two things. If you could talk a little bit about why you don't find those arguments convincing. And then secondly, I wonder if you could -- well, you had quite diplomatically referred to the problems of a few months ago with derivatives regulation. And in particular, it was really an issue where Gary Gensler and the Commodities Futures Trading Commission had fairly different views from many in the U.S., and virtually every one in Europe. I wonder if you could talk a little bit about how a situation like that would be improved in any way by what you're proposing.

MS. CALVIÑO: Thank you. Very good questions.

First, we are not convinced by the arguments of the U.S. for various reasons. First is because in the last years we've been testing the limits of the existing mechanisms. We cooperate in the multinational, multilateral area in our G-20 meetings. We have good cooperation bilaterally as I have emphasized, and I really want to pay tribute to our U.S. counterparts. You know, they're doing an enormous work and a very good effort. So we've tested those limits. Tomorrow we are going to yet again make an enormous investment. I've come here with a big European delegation, very high level people, to try to bridge the gap and find solutions. So it's not that we haven't tried. What we see is that these very good cooperations have not stopped or avoided having a number of important hiccups. And the one that you were referring to, which I will talk about in a second, is probably the most spectacular of those hiccups to put it that way.

So secondly, we are convinced that the T-TIP provides an opportunity. We don't see this as a threat. We are not concerned about this actually limiting the scope for the European Union to do things or to develop its own rules or for regulators to keep their independence, you know. I haven't heard anybody in Europe who would think that the T-Tip is actually going to take any of our powers. We see this as an opportunity. Now that the political leaders on both sides of the Atlantic are engaging in something which is a partnership, let's take this train, no? Because once it's gone, then the

opportunity will be missed and we will never have this high a ranking of interest that can lead us to something which is more ambitious.

And thirdly, because, indeed, the independence of regulators and the existence of different regulators in the U.S. maybe creates problems sometimes for cross-Atlantic cooperation, and the fact that there would be an overarching scheme would facilitate the cooperation with these regulators. So we don't think that that's going to limit their powers, but this is going to provide a framework that would ensure that our problems or our concerns will be taken into account and vice-versa.

This brings me to your specific example. What we saw was that there was a U.S. regulator. It could have been -- it's not a personal issue. It could have happened anywhere else; right? But there was a regulator that was going ahead with some rules, and despite the fact that we were signaling that there were problems and there were problems, there was really no actual attempt to address those problems in advance until it was the 11th hour, four in the morning after hours and hours, and because of enormous market pressure and political pressure and media pressure at all levels.

Well, this is not the way we like to do things in Europe, frankly, and we have many problems and shortcomings in our institutional setting, but we would rather have a framework that allows each of us to know what the rules of the game are, which means that we ourselves have to take into account problems or concerns expressed by U.S. counterparts, which we always do, and they also have to listen to us in order to have something which functions well. If at the end of the day and after these consultations there is a decision no, nevertheless we're going to go ahead, fine. But at least the process will not be (inaudible) just because two persons happen to know each other or to talk on the phone. That there would be a process with some clear rules.

MR. ELLIOTT: You know, I was with you there until you said Europe doesn't like to do things at the 11th hour. I think you might have missed a couple euro

summits.

Let me ask you one other question more for clarification for an American audience. You have European Parliamentarian elections coming up in May. There will be a new commission formed after that. Could you just tell us a little bit about what that means concretely about what can still be done, how long a gap of time there will be, when very little will be done or what might be done during that period, and just how much things might change after the elections and after the new commission.

MS. CALVIÑO: Well, this is a very special election that we are facing because we have had two terms of the same president of the commission, President Barnier. So as it happens here, when there's a change of president, of course, this is much more important than just continuity of the administration.

Secondly, these are quite meaningful and symbolic elections where the European Parliament wants to make these for the first time a federal election in the sense that they want to have a candidate from a party so that the nationality of the candidate would be less relevant than the political party where that candidate would belong. So in that sense, everybody wants -- not everybody, but many people want to make these the first symbol that we're really moving ahead in terms of European integration. So there are great expectations of what can come out of these elections.

Now, we are working flat out until those elections which are May 21st is it? The 21st of May. And then there is a period of uncertainty in a sense that we will have to see the implications in terms of who is going to be the president of the commission and the other institutions. So for some months, things are going to be a bit calmer. Of course, the European Commission, as is the case here with the government, is a caretaking commission, so there is no vacuum. The government continues to exist but there's a limit to what decisions can be taken in that period.

How long is that period? Well, if everything went fine, by the end of the

year we would have a new commission and everything would be up in place, but there is a parliamentary hearing of the new commissioners, so some may not be accepted, et cetera, so it's a bit early to know when that period will be finished. But normally, by the end of the year we would have a new commission.

And now how much can change? Well, in terms of the parliamentary composition, things can change, obviously, and one of the problems of the European crisis has been the race of political parties which are a bit more -- which are less euro-supportive and less federalist if we can call them that way. And so in that sense it's difficult to see whether that will change something in the new parliament.

As for the European commission, traditionally our institution is very stable. So the fact that there's a change in terms of the commissioner, for example, should in principle not imply a total radical change. The vast majority of the financial rules will already have been -- all of them have been proposed and will have been adopted, so in that sense it's not like we should expect the next commission to undo everything that we have been doing until now. Of course, nobody knows what the future will bring, but that would not correspond to what usually happens in Europe.

MR. Elliott: Okay. Well, I could ask you many other things but I don't want to be the only one talking to you. So let me turn it over to all of you for questions. So just a few guidelines. One, please make sure it's actually a question. Given that we have somewhat limited time, if you could hold it to one question that would be even better. And please wait for the microphone to come to you, and please tell us who you are and what your affiliation is in terms of that.

Sir, up here in the front.

MR. SHERRETTA: Robert Sherretta with International Investor. Thank you for a very coherent explanation of what's going on with this regulatory reform.

Very quickly, you know that all these rules and regulations threaten the

profitability in some cases of some very powerful institutions, and the bonuses and income of a lot of very wealthy people. We know there's been an extensive lobbying effort here in the United States to water a lot of these rules down. That same lobbying effort will try to probably derail the incorporation of them in the trade agreement that's being proposed. Do you see the same lobbying effort on the European side? Do you see the same sort of power being exerted on the regulatory reform there? And what can be done on either side to resist it?

MS. CALVIÑO: Well, I think probably lobbyists are more professional even here in the U.S. because they have a longstanding tradition. But yes, we are subject to similar lobbying pressures to try to water down requirements or to change them to suit the interest of those which are affected. That's typical.

My impression is that in the last years, on both sides of the Atlantic there's been a very strong determination on the side of the administration and the congress, et cetera, to move ahead, because the crisis has been so dramatic that a lot of people have realized that this is actually very important and it cannot just be undone or stopped.

What can we do to stop it? Well, the typical message of these lobbyists is you shouldn't be so tough on us because the other side is much weaker. So, for example, banks in Europe would come to us and say in the U.S. they're not implementing the liquidity requirements. Why are you being so tough on us? Or CCPs in the U.S. do not have the same two day requirements. Why are you being so tough on us? And I'm sure that they do the same on each side of the Atlantic, saying, well, those Europeans, they're not serious about leverage or they're not serious about this or that. So why are you so tough on us? That's the traditional message.

The best way to resist it is, as I said before, not to believe things at face value but to try to understand much better what's going on both sides of the Atlantic and

from the perspective of regulators to work together. That's, you know, mutual trust and working together is, in my view, the best way to resist these lobbying efforts.

MR. ELLIOTT: Okay. Others?

Nicolas?

MR. VERON: Nicolas Veron, here at the Peterson Institute, and also at Bruegel in Brussels.

Thank you, Nadia, for a very comprehensive overview, and a very appealing proposal I think in the T-TIP context. We know why people here in this city and in this country may not like this proposal. I have a question, however, about the European side because I can think of a series of instances in the past five years where implementation of your proposal would have made things vastly more difficult for Commissioner Barnier. If I think of some proposals on bonuses, credit rating agencies, a number of initiatives that were not shared between Europe and the U.S., I suspect that the dialogue you proposed would have raised a number of counterarguments to the European Union proposal that would have made the political and administrative job of getting those through the Brussels and EU context more difficult.

So the question is not exactly why would Commissioner Barnier propose something that would make his job more difficult, because I can understand the argument for that, but it's rather are you really confident that the whole machinery of the European Union could agree on this proposal assuming, which is not the case at this point, that the U.S. side would like it? Thank you.

MS. CALVIÑO: Two points. First, I am basing my assertions on the evidence that all institutions in the EU are supportive of this line. I mean, the European Parliament is supporting this line. Member states with whom we discuss on a constant basis are supporting our line, so I think that there is a clear understanding on the other side of the Atlantic that having this kind of strategic alliance would be good for financial

stability in Europe, too. That would be to your final question.

On your first remarks, you're absolutely sure that a number of actions that are taken on the other side of the Atlantic also have an impact on the U.S. Obviously. And it is not like as if where we haven't heard the concerns on this side of the Atlantic concerning bonuses, credit rating agencies, or other initiatives that we've been working on in the last years. As I said before, you listen to the other side. You take those concerns into account. You try to minimize them and find solutions, and then maybe you nevertheless go ahead with something that is not identical on both sides of the Atlantic. I think we fully respect that autonomy for regulators to do something which maybe is not totally aligned. No? But the objective would be to minimize those cases where that has been done without taking even further discussion and account of the position of the other side.

The two examples you mentioned are two examples where I think the message has come quite clearly and we've listened to it very carefully.

MR. ELLIOTT: Okay. Others? The fellow up here.

MR. BERGER: Hello. Jim Berger from Washington Trade Daily.

Secretary Lu, as late as last week or the week before, laid out the U.S. position. It was pretty adamant against including these regulatory processes within T-TIP. What gives you -- do you have any indication hat that may change or are you just running up against a brick wall this week?

MS. CALVIÑO: Well, as happen sometimes, I'm not sure that that position is shared by everybody that has something to say in this regard. Of course, Secretary Lu has been consistent in that regard but there are other persons also in other institutions that have something to say in the U.S. So in that sense, our hope is not lost if that is your question. And since we have so convinced, I don't think the European Union is going to drop it, frankly. And one of the things we discussed in these kind of

negotiations is the scope of what is on the table. So at this stage, financial regulation is one of the issues which is on the table and the European Commission is not going to say, "Oh, fine. Just forget about it." That's the way we are approaching it. And by talking to our counterparts and explaining it and dispelling all those doubts and misunderstandings, we hope that the position will change.

MR. ELLIOTT: If I could ask a related question. I'm unfortunately a bit pessimistic about it being included, but I have hoped that perhaps the pressure of the existence of that proposal being pushed so strongly might help bring some coherence between the two sides before then as the U.S. tries to make sure that the issues that might cause this to go into T-TIP are diffused somewhat. Are you seeing any evidence of that?

MS. CALVIÑO: Well, we will see what happens tomorrow.

MR. Elliott: Okay. Fair enough. Well, I wish you luck with that.

There was someone fairly far in the back. Yeah.

SPEAKER: I think first of all, with respect to the first question, I have to say that the industry basically does support the program. And to Ms. Calviňo's point --

MR. ELLIOTT: Yeah. David, if you could identify yourself.

MR. SCHROFF: Oh, sorry. David Schroff, from the IAF.

One of the things, to go to Ms. Calviňo's point, there's always an interest in a level playing field and the industry actually does support putting many of the procedural things into the T-TIP, which I think is important to keep in mind.

One of the things the industry is in favor of is the G-20 resolution program. You mentioned in the beginning the recurring resolution directive, which is great that it's got as far as -- it's almost finished, I guess. But part of that that confuses people in this country is the role of the resolution fund that's still under discussion, and that's something that seems not to be consistent with the international program and is not

consistent with bail in. So I wonder if you could comment a little bit on that.

MS. CALVIÑO: Well, there are two different things which we are doing in pilot in Europe, and I am not surprised that people are confused because it's true that we are moving faster than we expected in a number of areas, and this is one of them.

So a couple of years ago we proposed a resolution directive which creates a framework, a single rulebook for the 28 member states. And then the sovereign debt crisis broke and then the whole need to create this banking union came into place. And this banking union is a much tighter cooperation between the countries which are in the Eurozone in principle. Any members that can join, but those that are in the Eurozone that share the same currency, they are forced -- let's put it that way. They're very happy but they are forced to participate in this banking union. And one of the elements is the creation of a single resolution fund. And the creation of this single resolution fund is, of course, a very delicate issue because it means that the contributions that come from the banks are no longer going to go to national funds. It will be a European fund. So there is a mutualization of this insurance. And some members states, and I'm not surprised by it, are saying, "Hey, hey. You're going too fast. You're going too far. Wait a second. My banks are national. I will deal with them. Why do I have to create this common fund?"

I must say this is a minority of people in these discussions. The vast majority understand we need to go as fast as possible towards a single fund which would be in the Eurozone. And I'm optimistic that we will be able to create that quite soon.

Now, is this inconsistent with the international program? No, not at all. What we are trying to ensure is that the resolution directive is well articulated with the necessary cooperation between resolution authorities in particular across the Atlantic because that's where most cross-border international banks are present. So the directive caters and foresees specifically these and we will need to work together. We have a very

good cooperation with the FDIC, and we will work together to see that the actual implementation of the rules is very coherent and consistent for cross-border groups in this regard.

So the creation of the fund in itself I don't think has a negative impact in terms of the international damage, and it's a process of creating a more integrated -- I'm constantly using this federal word because I think you can understand this concept. We are creating those federal institutions that you have over here. You have had them for decades.

MR. ELLIOTT: Okay. Over here.

SPEAKER: Thank you so much, Nadia, for being here.

I'm attending an executive program through Georgetown University, and we are carrying out our final project, and the topic is the banking union. And our hypothesis is that the banking union is not going to be enough to give a solution to the euro crisis. So the fiscal union will be the first best. So could you develop a big in our hypothesis, please?

MR. ELLIOTT: Isn't that cheating?

MS. CALVIÑO: Of course, the European Commission is quite convinced that indeed the midterm plan for Europe has to be a much tighter fiscal union and eventually a more tighter political union in some instances. And that has been very clearly explained I think in the blueprint for a stronger European economic and monetary union that was published I think in December 2011, which gives a very clear outlook and growth map. And I would encourage those that are interested in European construction to read it because the European Commission is an institution that never writes a paper for no good reason. So when we publish something it means -- when we publish something which is so ambitious and so clear, it is that there's a strong determination that that's the way we want to go. And fiscal union is one of the elements.

But this is not for today. This is not for tomorrow. So we will have to start building elements and building blocks that are going to get us to this design. For us in terms of financial stability and integrity of the monetary union, the banking union is indispensable. So having a single supervisor, a single resolution authority with a single fund is indispensable, and we think this can be achieved in the coming couple of years, and then we will build on that, the next steps towards that stronger integration.

MR. Elliott: I think we can probably get in one last question. Sir, there in the back. Sorry, in the middle there. Yes.

MR. PRICE: Lee Price from the FDIC.

The question I want to get to is about the tensions between the EU and the Eurozone, because you have some important countries that are not in the Eurozone as you talk about the banking union. And I was further intrigued by you're talking about banking union and talking about supervision and resolution but didn't mention deposit insurance, which is another issue related to the banking union that's sometimes talked about, sometimes not, left out, and just what you just said. So I'm interested in your discussion both about those three legs or more in banking union, but also what the tensions are in doing it without -- with the ECB and important countries that are not in the Eurozone.

MS. CALVIÑO: It's an extremely good question because that is probably the main challenge that Europe is actually facing with this construction, is the fact that we're building something -- we're building new structures, new infrastructures, political infrastructures for the Eurozone, whereas we are a project for 28. And the directorate general where I work, as Doug was explaining in the beginning, is called Directorate General for the Internal Market. So for us, preserving this internal market, this integrated area with free moment of people, free moment of services, financial services, freedom of establishment, this is the basis of the whole building of the European Union.

So in everything we do, we always try to ensure that the integrity of the internal market is not impaired or broken. But it is quite challenging when we're building this single supervisor and the single resolution authority. Nevertheless, if you look at our rules, our regulations, et cetera, the principles of equal treatment, the close cooperation with the supervisors and resolution authorities of those member states which are not inside the Eurozone yet, because all member states except one or two eventually are to join the euro. All that is permeating all our rules and they are participating very actively I must add in the negotiations which are taking place.

Most member states are really interested because they see these as something they will join sooner or later. And with one of the member states we will see, you know. They have a number of discussions about their future in that regard.

And on the deposit insurance, one of the rules that was adopted by the end of last year was the directive on deposit guaranty schemes. In order to harmonize -- we already had harmonized the coverage, but we have also harmonized the functioning of those funds in terms of paying, you know, exemptive funding and how the payout would take place, et cetera. So this has been harmonized but it is a directive and those funds will in principle remain national.

Still, what we have also done in the regulation framework is to articular how these deposition guarantee schemes would come into play in case of a resolution.

So we have introduced, as you know, depositor preference. There is a clear role for deposit guaranty schemes to come at the end, et cetera, so we don't think that not having the deposit guaranty schemes at a supranational level right now should impede us to have a good framework for resolution of banks in going forward.

MR. ELLIOTT: Okay. Well, thank you very much, Nadia. And thank you all for staying here so late.

(Applause)

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