THE BROOKINGS INSTITUTION

EUROPEAN FINANCIAL REGULATION AND TRANSATLANTIC COLLABORATION

FEATURING LORD HILL, EUROPEAN COMMISSIONER FOR FINANCIAL STABILITY, FINANCIAL SERVICES, AND CAPITAL MARKETS UNION

Washington, D.C.

Wednesday, February 25, 2015

PARTICIPANTS:

Moderator:

DOUGLAS J. ELLIOTT
Fellow, Economic Studies
The Brookings Institution

Featured Speaker:

JONATHAN HILL
European Commissioner for Financial Stability,
Financial Services, and Capital Markets Union
European Commission

* * * * *

P R O C E E D I N G S

MR. ELLIOTT: Good afternoon, everyone, and welcome. I'm Doug Elliott of the Economics Studies Program here at Brookings. And it's my distinct honor today to moderate our event with Lord Hill.

Jonathan Hill is the Michelle Barnet European Commissioner for Financial Stability, Financial Services, and Capital Markets Union. He is part of the new Commission that took office in November of last year and we are particularly honored that he has chosen Brookings as the venue for his first policy speech in the U.S. in this new position.

His predecessor, Michel Barnier, also spoke twice here and we hope that will be a precedent when we get Lord Hill back again in the future, so hopefully he'll enjoy his experience here.

Prior to becoming commissioner, Lord Hill had a distinguished career in the public and private sectors in the U.K. You have a copy of his detailed bio in your materials, so I will only lightly summarize his background.

He was an advisor to Conservative Party governments in the U.K. in the 1980s and '90s, rising to be political secretary to Prime Minister John Major. He was in that role during the negotiations of the Maastricht Treaty that redefined the European Union, so he is not entirely new to Brussels as he is sometimes portrayed to be.

He then moved to the private sector where he was an influential communications consultant for 16 years. Before he returned to political life, after being made a Life Peer in 2010, he was Undersecretary of State for Education, and then he was the leader of the Conservative Party in the House of Lords. For those of you who have heard Michel Barnier speak here, I think you will find a great deal of difference between Lord Hill and his predecessor, but I will leave you to draw your own conclusions about that.

In a moment I will turn over the stage to Lord Hill. Just so you know the drill, after his remarks I will have the privilege of joining him on the stage and asking a few questions. And then I will moderate as he answers questions from you in the audience.

Lord Hill?

LORD HILL: Well, good afternoon, ladies and gentlemen. Thanks very much, Doug. It is very good to be here, indeed. And I'm very pleased to have the chance to be here at The Brookings Institution, which is a think tank as respected as it is long-lived. And over the last century, empires have come and gone, the world order has changed, but Brookings has sailed on, not just commenting on events, but also shaping them because it was, of course, The Brookings Institution which helped draw up the Marshall Plan, America's generous and far-sighted contribution to European reconstruction after the Second World War.

So what better place than here to reflect on the values that the United States and the European Union have in common? What better place than here to make the case that not just our history, but also our future is inextricably linked? And what better place to argue that the transatlantic relationship in financial services can be, must be, a force for positive change.

Now, to set the context, perhaps you will allow me to say a few words about the new European Commission. Our top priority is jobs and growth. We are a Commission that wants to be bigger on the big things and smaller on the small. So in our first year, we will be bringing forward one-fifth of the number of new legislative proposals that the Commission has usually brought forward each year.

We have a new structure that is encouraging a more focused approach to our work, more closely linked to the new Commission's priorities. We have a new drive on building the single market in capital markets in my area, in energy, and in digital services. And we are committed to increasing trade in general and TTIP in particular. Now, this is an agenda with which I am comfortable as someone who is pro-trade, pro-competition and pro-markets. And we're all shaped by our upbringing, and I am the son of a small businessman who himself set up his own business before falling prey to the lure of politics.

So how do I apply this new focus of the Commission to the job that I do? I am committed, as the job description says, to financial stability and I see that as being the best way to underpin sustainable growth. But I'm also very conscious that today in Europe one of the greatest threats to financial stability is the lack of jobs and growth.

Europe's economy is growing again, but the speed of the recovery is much slower than we would like. We have nearly 25 million people out of work. And in many European countries, there are genuine fears for a lost generation, where the lack of growth and opportunity persists, a sense of hopelessness is creating a worrying and corrosive cynicism about the ability of democratic politics to deliver. So there is not only an economic, but a democratic imperative to get our economies growing again.

Now, how do I think the financial sector can contribute to growth? First, by building a sound and stable financial system, one that is able to lend, keep people's savings secure, process payments, and generally deliver the services that consumers and businesses need day by day. And since the financial crisis in Europe, as in the United States, we've done a huge amount of work to ensure that we have that safe, stable financial system, one that is robust enough to cope with challenging times and in which a single weak institution does not destabilize the whole economy.

The bulk of our legislation has been drawn up and is now coming into force with better supervision, greater transparency, and new rules to ensure stronger financial institutions and to deal with problems if they arise. And, of course, we also now have the Banking Union which will help break negative feedback loops between sovereigns and banks, promoting the integrity of the euro zone, and the stability of its banking system.

Now, I'll work hard to make sure that those things stay on the right track and I will also tackle other major sources of risk by taking forward proposals that we have currently under negotiation, such as on Money Market Funds, benchmarks, and bank structural reform. And we're committed to bringing forward proposals so that we have an effective resolution regime for non-bank financial institutions.

That said, I hope we are entering a new phase where we can have greater regulatory stability. I don't anticipate that in future we will see anything like the volume of legislation we have seen in recent years. In my view, businesses need certainty in order to be able to plan ahead.

I also want to take a close look at the cumulative effect of the laws we have passed in order to make sure we've got the balance right between reducing risk and fostering growth. And if we find we haven't got it exactly right, I think we should have the confidence to change things, so I intend to look at European regulations through that prism of jobs and growth.

Now, another way, of course, that finance can support growth is through well-functioning capital markets and last week we launched the Capital Markets Union, which is our flagship project to build a single market for capital for all 28 member states.

While President Juncker's 315 billion euro investment plan should help kick start growth, the goal of Capital Markets Union is to unlock investment for the long term by linking investors and savers with businesses and growth. And we believe that a single market for capital will benefit the whole European economy, helping to unlock the capital that is currently frozen and putting it to work to support Europe's businesses, perhaps particularly our SMEs and startups. And we want to remove the barriers that stand between investors and investment opportunities and we want to make the system for channeling those funds more efficient.

In many parts of Europe today, companies often struggle to get the funding they need to expand. They tend to rely on the banks and far less on capital markets. And here in the U.S., obviously, the opposite is true. This reliance on banks makes the European economy more vulnerable when bank lending tightens, and we saw this happen during the financial crisis, and we saw banks and investors retreat to their home markets. So our capital markets remain fragmented, largely along national lines and this is what we need to fix.

So we hope that the Capital Markets Union will act as a major upgrade to a network that connects those who need financing with those who have money to invest. Europe, of course, already has a financial network, but now it needs better connections to make that network become faster, more developed, and more efficient.

Capital Markets Union is also about complementing the role of banks, not displacing them. Some companies would welcome more options for financing and in some EU countries, where banks are not lending, our startups and our SMEs are struggling. So, yes, we need to be able to tap into alternative sources of funding. And if we take an example and look at venture capital, the U.S. venture capital market is about five times bigger than in the EU. And if European venture capital markets were as developed as those here, we estimate that companies would have been able to tap into an extra 90 billion euros of funding in the 5 years after 2008.

So building a single market for capital will be a long-term project and it will be an ambitious one. We'll have to work hard on difficult, sometimes longstanding issues, such as securities laws, investment restrictions, tax treatments of debt and equity, and insolvency regimes. But the prize is a big one and if we can get it right, companies will be able to access the funding they need from across the EU. SMEs will be able to raise finance more easily, people saving for their future and their retirement will be able to benefit from a wider range of affordable investment opportunities, and investors will come from all over the world to invest in the EU because they know that our capital markets are safe and stable.

I am also keen to make early progress alongside these more ambitious long-term goals. So, on securitization, we want to encourage the development of an EU market for high-quality securitization which is transparent, simple, and standardized. And if we can achieve that, we can help free up banks' balance sheets so they can lend to households and businesses.

It doesn't mean we'll be going back to the bad old days of subprime mortgages. To the highly complex, opaque, and risky securitization instruments which were part of the crisis our door will remain firmly closed. But we are consulting on the best ways to single out a category of highly transparent, simple, and standardized products.

We've also launched a review of our Prospectus Directive to try to make it easier for companies, especially SMEs, to raise capital anywhere in the EU. And we'll be taking a hard look at whether we can remove unnecessary administrative burdens for companies raising capital across the EU while maintaining investor protection.

Now, I don't believe that in building this single market there is a silver bullet, one simple lever that we can pull. Rather there will need to be a sustained campaign, building momentum, piling up progress step by step. I hope that it will create new opportunities for American investors. Improving the competitiveness and efficiency of European markets will mean lower costs. By providing a wider range of investment opportunities in the EU, overseas investors will have a wider range of options and ability to diversify their risks.

CMU should help make it easier for American banks and investors to put their capital to work in European countries they may be less familiar with, but that offer the same opportunities and assurance as the countries they do know. And if the EU has bigger capital markets, that will mean more is being invested in U.S. companies, as well. So this is not about closing doors to the outside world. On the contrary, we want to see more investment from outside investors, including, of course, from the United States.

Now, creating a financial system that is stable, but also promotes jobs and growth can't be done in isolation. Financial markets are cross-border markets by their very nature. They underpin the global economy and what happens in one part of the world can rapidly spread to other countries and that's why international cooperation matters so much, and it's one of the reasons why I'm here today in Washington.

The United States and the European Union are the world's biggest markets. Trade between them is already huge, generating close to $5 trillion in total commercial sales each year and employing up to 15 million workers. The U.S. and Europe are also each other's primary source and destination for foreign direct investment.

Now, this transatlantic economy is the largest and wealthiest market in the world, with the EU and U.S. together making up around 40 percent of the world's GDP. That puts us in a unique position of leadership. We can set global standards for the regulation of goods and services, and, in doing so, we can entrench our shared values, the values of personal freedom, of human rights, political free choice, as well as caring for the environment.

Because if we do not lead, others will step forward. China's stock market capitalization now exceeds that of the EU, relative to the size of the economy and other markets like

India, Turkey, South Korea, and Singapore are all growing faster than either of our economies.

When the crisis hit, world leaders put the G-20 at the forefront of a coordinated international response. It was the FSB which established the core elements of a new global financial system. In the EU, we've supported that process and we know the importance of international consistency. The G-20 gave us direction and other organizations such as the FSB, the Basel Committee, and IOSCO provide the international standards. Nevertheless the international rules and standards are not always very detailed and they must be put through the

democratic legislative process in each jurisdiction.

Now, we're now entering the era of implementation. We need to ensure that the detailed domestic rules work together. Loopholes and overlaps will not get us stable and resilient financial systems and they will harm business. So that's where the work at bilateral level comes in.

The EU and U.S. cooperate closely on many issues and we have achieved a number of successful results with our informal regulatory dialogues. We work well together in a number of areas, such as on resolving outstanding issues around re-insurance collateral, but in some areas, informal dialogue has proved too little. We have had situations in which we were forced to scramble for last-minute fixes, which increased insecurity in the markets.

And, in my view, we need to have a more solid, treaty-based system for regulatory cooperation, which brings me, naturally, to the Transatlantic Trade and Investment Partnership. Now, both the EU and the U.S. want to maintain and strengthen financial stability. Both of us want to encourage businesses to make the most of opportunities on both sides of the Atlantic, and to do so safely.

The main added value of the TTIP will lie in regulatory cooperation in the so-called "behind the border issues," not in slashing down tariffs or only granting market access. Financial regulation should form part of it. Indeed, with our interconnected world, if we want to join up markets and improve investment flows, how can we possibly leave financial services out?

Given the volume of business done between the EU and the U.S., it makes sense for transatlantic cooperation to go into greater detail than the level currently seen in international fora. Enhanced cooperation should allow us to consult each other at an early stage in the regulatory process. And, importantly, our consistent implementation of international standards and close supervisory cooperation would mean that the EU and the U.S. would be able to rely on each other's rules.

So the benefits of transatlantic cooperation are clear. We'd provide a larger and more efficient marketplace for financial firms, giving them greater capacity to provide finance for the economy. Early troubleshooting and greater supervisory cooperation would mean we could maintain financial stability more efficiently, and we would solidify the leading role of the EU and the United States in financial regulation.

Now, we know that there is resistance in the U.S. to stronger transatlantic cooperation in financial services being anchored in an international treaty, but I would argue that many of those fears are unfounded. We're not trying to create identikit legislation in Europe and the U.S. We simply want to make them more compatible.

And I think it's a question of common sense. We offer cooperation. Sure, at times, we have animated conversation about the details, but overall, well-regulated markets that allow business to thrive, isn't it what we both want?

And we do not intend to negotiate away our financial rules and financial stability on either side of the Atlantic. On the contrary, we want to use TTIP to anchor our constructive cooperation and give it a permanent base. So I hope we can reach agreement so that we can start to strengthen the arrangements we currently have and develop a more structured framework of regulatory cooperation.

Ladies and gentlemen, for the last 100 years, under the benign but beady eye of The Brookings Institution, the history of our two continents has been intertwined. Europe owes the United States a huge debt for its role in our affairs in the last century, not least for bringing freedom and hope to those countries which had been under the cold grip of the Soviet Empire.

We should never forget the values we have in common and what we achieved together. But for me our relationship should not be built just on our past, but on our future. We have an opportunity and I believe a responsibility to lead. So let us look at the transatlantic relationship in financial services in that light, and as a force for positive change.

Thanks very much. (Applause)

MR. ELLIOTT: Thank you. Thank you very much, Lord Hill. I thought that was an excellent speech and I find I'm in very broad agreement with your comments, which means that I'm going to focus my own questions on the areas of disagreement or perhaps --

LORD HILL: Don't feel that you have to.

MR. ELLIOTT: Well, it does feel a little rude, after you were so kind in recognizing the preeminent role of Brookings in all of world history.

LORD HILL: No, just the last 100 years.

MR. ELLIOTT: One hears what one wants to hear. But, with that, Capital Markets Union clearly is a good idea. A concern I have, as you know, is that there may be an excessive focus on the small- and medium-sized enterprises in this, particularly many of the national politicians and politicians in the European Parliament are selling Capital Markets Union almost solely on that basis, which I think could have a number of bad effects.

Do you share that concern? If you do, what can be done about perhaps an excessive emphasis? If you don't share it, why don't you share it?

LORD HILL: Well, I think the first general point that I would make is that the support for the proposals in the Green Paper, which we launched last week, has been very widespread across the European Union, from all the 28 member states, particularly some of the newest and smallest ones, which have the least-developed capital markets and the least-developed history of entrepreneurial activity. So I'm grateful for your support, and to endorse that, that is a broad support across European Union and across political parties, as well, which is important.

Clearly, we need to have more medium-sized businesses going and becoming large-sized businesses because that makes our system more diverse. It's a very effective way of dealing with unemployment and, at the moment, we are seeing a lot of businesses with good ideas coming to the United States for funding and setting up and growing here, and I'm all in favor of competition. But, therefore, I think we need a bit more to have it in the EU.

I agree with you that this is not and must not be explained as solely a set of measures that will benefit small- and medium-sized enterprises. I think if it works properly, by increasing investment flows, there will be a whole range of beneficiaries, from people who want to save their retirement in a broader range of investment products, from businesses of all sizes that need capital to expand. So I utterly take the point that this is not solely about SMEs. I think the fact that within the European debate there feels to be an emphasis on, that is because they are seen as being such an important part of the economy and people want to rally around ideas that will enable them to be strengthened.

MR. ELLIOTT: And just to be clear for those who might not know my own views, I absolutely agree, small- and medium-sized enterprises are important. It's good to do things to help them. My concern is just that capital markets tend to operate more for the larger, and the large end of the medium, and there are many, many good things you can do that won't directly help the SMEs, as I know you know my view.

Second is on the Financial Transactions Tax. From an American point of view, it looks odd to be, on the one hand, arguing collectively in Europe that capital markets need to be more effective and efficient, and, at the same time, there's still broad support for a Financial Transactions Tax where many of the proponents are arguing for it precisely because it throws sand in the gears of the markets. These seem at odds.

The European Commission does not have a proposal to have a Financial Transaction Tax in the entire European Union, but you do have an obligation to assist with an effort by, I think, roughly a dozen countries to have a so-called Enhanced Cooperation Agreement on Financial Transaction Tax. Can you talk a little bit about how to square that circle and how the Commission can assist to move forward for that group, yet, at the same time, avoid hurting the markets too much?

LORD HILL: Well, I think the way you put it -- about throwing sand in the gears -- whether that was part of the original rationale in the middle of the financial storm that may be part of the thinking that was in place where people were struck by the over-animal spirits of the markets, and were concerned.

I think we're in a different environment now in the world, but particularly in Europe where I think, as I say, the focus has shifted more towards jobs and growth. And I, in my job, thinking about financial stability, see that lack of jobs and growth as being one of the threats to financial stability. I think that issues like Financial Transaction Tax and other ways of addressing that kind of issue, whether it's a tax disclosure or whatever it is, is best done at a global level, so that you don't have marketplace competition problems. We'll have to see where this particular piece of work gets to. I will, within the college, make the point that any proposals that people come up with will need to be conscious of the potential downside effect on the Capital Markets Union.

MR. ELLIOTT: Okay, thank you. Now let me come at you from the opposite side with a different question, which is another concern one might have -- and I do, in some part -- is that an excessive focus on jobs and growth could lead to denigrating certain changes that are important for financial stability, but where there's a tradeoff with jobs and growth. In particular, as I'm sure you know, in the U.S. we worry about the leverage ratio. That is the fairly straightforward ratio of the assets a bank has versus the capital that it has. And leverage ratios in the U.S. tend to be safer than leverage ratios in Europe, for a whole variety of reasons.

There's a concern here that Europe may back away from a commitment to solidly establish a minimum leverage ratio, and there are technical ways of weakening it. There is an argument for that if you focus solely on jobs and growth because there is a tradeoff. More capital does make loans more expensive and harder to get, which hurts growth. So I was wondering if you could talk a little bit about how you view the balancing act between safety margins and jobs and growth.

LORD HILL: Well, I think, first of all, I would say that the measures that the EU took in the wake of the financial crisis to strengthen its banking sector and to increase the amount of capital that they were holding, I think, is very broadly comparable with the drive that happened in the United States, not least because they stem from a shared analysis and a shared approach. Clearly there are some differences because the markets are different, but I think if you look at the overall capital ratios, they're not wildly divergent.

In terms of if you're saying to me is the EU about to set out on a plan to step back from the whole approach that was developed in recent years on a whole range of issues through the FSB, no, we're not. As I was trying to argue in my speech, I think that international cooperation, agreement over standards, and then their implementation in a whole range of areas -- banking, but now looking at other areas -- is extremely important. And I would hate it if in the U.S., people thought that the EU was somehow soft on these issues. I don't think that's true.

I think there are some areas, and you cited one, where for reasons of history or the shape of your market, you would have tighter requirements than us in certain respects. There are a number of other areas and sectors where I would argue back that, actually, the EU has got a set of tighter requirements. So I think this impression that sometimes people create that the United States has got a whole set of much tougher requirements than anything, and meanwhile those Europeans, you can't trust them, they're backsliding, I don't think it's true.

In terms of jobs and growth, I take your point that there is a balance and I think a whole set of decisions that I will need to try and take will revolve around that balance. There are tradeoffs and I'm not arguing for one moment when I was saying that after the activity of the last five years, it's sensible for me to look at some of the detailed application of things to make sure you've got everything right.

I have a simple view that if you've acted under great pressure in a short period of time and you've piled through huge amounts of legislation -- in your case, one huge great omnibus, in our case, 40 separate pieces of legislation -- common sense says to me that we won't have got everything absolutely right and, therefore, to have a look in a calm and rational way, not to say, no, all of that's wrong, I want to change it all. I'm not saying that.

But I think at the margins there are areas where it can makes sense to just question some of those individual pieces to make sure one has got it right. And I don't think we should be afraid to do that because I don't think that signifies that we are -- either the United States or Europe -- having a major retreat from things that we've agreed on over the last five years.

MR. ELLIOTT: Fair enough. And I would certainly agree with that last point. So much has been done so fast, not knowing for sure how it will all interact. Clearly, on both sides of the Atlantic, we'll need to reexamine and work out details that might be better done a different way.

So let me switch to a different topic. As people may have noticed, you're from the U.K. It's possible that within a couple of years the U.K. may not be in the EU since there's a discussion of a referendum on a pullout. How has this affected you ability to maneuver in Brussels? Do you find that this makes it a little bit harder?

LORD HILL: No, I don't. Actually, oddly enough, on the novelty value of being a Brit in the EU. (Laughter) It's okay. And I think -- just a couple of general observations, if I may?

First of all, the very strong support that I have encountered across the Commission, more generally from people from all countries who are very keen that the

U.K. should remain in the EU. So if people are sitting here thinking, okay, maybe everyone's fed up with Britain, that's not what it feels like at all in mainland Europe.

Indeed, what a number of people say to me is, well, this is slightly perplexing. Enlargement, that was a British kind of project. Enlargement was a bringing in the countries to the east and north of Europe into the EU. Single market, that's something that the Brits have banged on about for a very long time, and the new Commission has got three single market projects that we're taking forward. Free trade, that's another cause that Britain has championed. And you've all got us speaking English, which is the main language of the Commission, for those of you who don't know. So I think the mood is strongly supportive.

Secondly -- sorry, this is a long answer, but it's an important subject -- there is a sense, sometimes in my own country, of what I call British exceptionalism. You know, Brits -- perfectly, properly -- like to think of ourselves as being different: a thousand years of history, 1066, and the Battle of Waterloo, then in the last century, two world wars where we stood shoulder to shoulder with our American friends and saved Europe. And there is a bit of the mentality which is to think that only we are making certain kinds of pushes for reform.

Well, again, the thing that strikes me, meeting people from all member states, is how many people from how many different countries and parts of the institutions agree that there are things that would be usefully reformed in the interest of the whole European Union. So I think there is a lot more appetite and support to have a sensible conversation, if that's what happens, because there won't be a referendum if the Conservatives don't win the general election in May.

But if that's what happens and we're into a referendum, I think we'll have a sensible, grown-up debate about things. And my view -- and I think we've just seen it recently over Greece -- is that the European Union, when it wants to resolve things, it has a genius for coming up with resolutions and ways forward.

MR. ELLIOTT: If you do have a sensible and adult debate, please let us know what that's like. (Laughter)

LORD HILL: Yeah, well, I'll -- yeah.

MR. ELLIOTT: Another question. You've alluded to this to some extent, so it may not need to be a long answer, but what do you see as the differences in the new Commission, particularly in your area, with the old Commission and with Barnier's Commission, if you'd call it that?

LORD HILL: I wasn't around in the old Commission, but what old Commission hands would say to me is that the greater focus that has been delivered through this new structure -- we've got a new structure of vice presidents and that's leading to more coordination between different commissioners and different parts of the Commission. And I think what people would say in the past was that it was a more silo-based system, with more turf battles between different parts of the system. And my experience so far is that we're actually working well together. So, on my Capital Markets Union, I probably had seven commissioners working with me on it and I think that is a good change.

I think the other main difference that I'd point is that the senior vice president has been put in charge of trying to make sure that any regulatory proposals are very well considered and we're not legislating overly. All bureaucracies I've ever worked in have a tendency to legislate, as do politicians, because it kind of proves they're alive.

I have a slightly different view, which is you should legislate when you need to and if you don't need to legislate, leave it alone because ceaseless pulling up of the bean to see whether it's rooting isn't very healthy. And the point I tried to make earlier is I think businesses need stability if they're going to invest and grow. So I think having a kind of valve on the system, which we now have with Franz Timmermans, the senior vice president. So a fifth as many new legislative proposals, I think that's a good sign.

MR. ELLIOTT: Okay, thank you. I don't want to monopolize you, so let me turn to the audience now for questions. Just a few ground rules for everyone. First, if you could, please identify yourself by name and affiliation, if you have an affiliation.

Second, I think you all know what a question is, please make sure you ask a question. And preferably, keep it to one, though I may make some exceptions. And that's pretty much it -- oh, and wait for the microphone, please, so that everyone can hear you. And we're also webcasting this and it will be a web archive, as well. So it's useful to us to have it captured on the microphone.

So, with that -- Martin's my boss, let me start with Martin.

MR. BAILY: I don't think I'm your boss anymore, Doug. You're too independent for that.

LORD HILL: The important thing is that he thinks you're his boss.

(Laughter)

MR. ELLIOTT: Exactly.

MR. BAILY: Maybe. There's a great deal of concern, honestly, about cybersecurity. Do you think that a Banking Union might increase the dangers of being hacked into for financial institutions? I assume that there are many things that you are in the process of doing, or have done, in order to make sure your Banking Union is secure from cyber hackers, maybe even some of the cyber hackers just up the street in Maryland. But can you talk a little bit about how you see your role or do you have a role in the cybersecurity side of the Banking Union?

LORD HILL: I think it's a very interesting question and I think it goes to the heart of another tension that we have between the capacity of new technology to transform financial services and the quality of the services that customers can have -- make things easier, better, quicker -- and bring people to have the availability of financial services that haven't previously been within the scope against the fact that with concentrated risk -- putting it all in one system, right there -- you are open to those problems. I think it's something that we all face. And when I met Jack Lew in Brussels a couple of weeks ago, it was one of the things we talked about. I think it is an area where it would be sensible for the EU and the U.S. to share their thinking and it's an example of the area where I think it does make sense for us to work together.

I don't think it's the case that the Banking Union, per se, or Capital Markets Union, that risk is coming. It's coming because of technological change and I think all that we can try and do is do our best to keep up or, if we can, keep one step ahead.

MR. ELLIOTT: Alex Privitera, if you'll stand up, she'll find it easier to figure out who you are. Coming from the other side.

MR. PRIVITERA: Thank you very much, Commissioner. Thank you, Doug. Alex Privitera here with AICGS.

My question goes to some of the details of Capital Markets Union and the fact that while you're trying to harmonize and to create an integrated Capital Markets Union system, you're obviously touching upon certain areas that member states are very jealous of. And I'm thinking particularly of legal regimes, insolvency laws, for instance. How are you going to go about those challenges in order to make sure that Capital Markets Union is filled with life and doesn't stay 2,000 meters above ground? Thank you.

LORD HILL: It's a very good question. I think, in essence, my approach is to -- the reason I've started with a Green Paper is to try to start by having a sensible, as proper and rigorous analysis as we can of what the barriers and obstacles are to the creation of a proper single market. And I want to do that because I'm very keen to try and build it from the bottom up based on the facts and the reality of the marketplace rather than starting with a blueprint of what would a perfectly operating single market look like if you were starting from scratch? Because we're not starting from scratch.

And in terms of how you build it, you've constantly got to balance the benefits of what you're trying to drive towards with the potential disruption, political and otherwise, that you might cause in getting it. So my thinking has been, let's start with that analysis. So I'm very keen for everyone to contribute analysis, not just in the EU. I think people in the U.S., whether they've got regulatory know-how or people in financial services who are already active in the EU or would like to be, I want them to contribute, too. What are the obstacles that they face? What are the barriers that there currently are between different countries? How can we tackle them?

Do that analysis, start with some early measures where there is already some agreement, get some pegs in the ground, start to build momentum, start to set a direction. I hope to capitalize on the political support that there is and then come on to address some of these more difficult questions later.

I think I should be realistic about what one is likely to achieve, but we should be ambitious, as well. So, I think a phased approach, starting with an analysis, trying to build it from the bottom up, and not shying away from questions like insolvency, as you say, and seeing if I can find a way of slicing into it and finding some practical solutions.

(Audio skips) what I hope to do in the summer, however long that season is -- a Brussels summer would be very short, actually; an Indian summer? -- is come up with a set of priorities and next steps and try to set out, to use the word, a kind of route map of where we'll go.

MR. ELLIOTT: Over there, yeah? Hung Tran?

MR. TRAN: My name is Hung Tran from the Institute of International Finance. Thank you lot here for your very exciting presentation.

I have another question about you mentioned funding for SMEs was one of the priorities of the Capital Markets Union project. Crowd funding or peer funding has recently gained traction, particularly in providing funding for SMEs. Is that something you envision to be part of the project in terms of clarifying the regulatory environment for, particularly, Pan-European crowd funding business to take off?

LORD HILL: Again, in our Green Paper, which I hope you will have the chance to read, we certainly touch on crowd funding and ask the question about the potential of it. I mean, I think at the moment its scale is still fairly modest. There are questions, again, it comes back to the earlier question about cyber crime. Crowd funding is a very good example, I think, of this constant balance one's trying to strike between something that is innovative and is bringing some different people to be prepared to invest and giving particularly some of these very small businesses opportunities they wouldn't have had against a regulatory concern about what recourse do people have and what might happen if it all goes wrong. But I think it should form part of it.

And I think what we're going to need to have, why I was making the point that there isn't a silver bullet, there's not one measure. I think there's going to be an accumulation that helps with part of the market and part of the funding gap. What we might try and do to encourage venture capital, private equity, then what might we do in the area of pension funds? I think there'll be a whole range, but I certainly would want to look at crowd funding.

MR. ELLIOTT: All the way in the back there.

MR. KAROFSKY: Yes, thank you very much. I'm (inaudible) Karofsky from Voice and Noyes Foundation. I have a question.

Are you not concerned at all in Europe that while you are raising the capital requirements on the floor up with the leverage ratio and keeping the risk-weighted equity requirements on top of it that the squeeze in between is going to accentuate the distortions that could be created in the allocation of credit to the real economy?

I bring just the image of *The Drowning Pool*. I don't know if you remember that movie, where he was hitting against the roof and the water level was increasing and getting worse and worse.

LORD HILL: Well, I didn't see the film. I think in a way this comes back to it's another manifestation of Doug's question about how you try to get these various elements in balance. And I think that's what we have to strive to do. And I don't have a simple answer, which is to say the exactly correct model needs to have these elements. So I just think we have to keep on trying to reconcile these competing demands.

MR. ELLIOTT: If you can keep your hand up.

MR. OSSIG: Thank you, Doug. Commissioner, you highlighted the link between --

MR. ELLIOTT: If you could identify yourself.

MR. OSSIG: Christian Ossig, also from the IAF.

Commissioner, you highlighted the link between Capital Markets Union and financial stability. Is there a risk that Capital Markets Union promotes unregulated markets, you might refer to shadow banking, and other additional measures needed in relation to EU-wide supervision in a Capital Markets Union?

LORD HILL: Well, that's two big issues. I think on the first one, we were discussing this a little earlier and I think one of the consequences of calling non-banking "shadow banking" is that people think by its very name it is dangerous and shadowy. And I think what you need to have is a sensible risk-based approach to that sector. So, as you'll know, that's an area that the FSB are looking at. In the EU we've taken a whole range of measures to address areas of risk in recent years. We've said we're going to bring forward proposals on resolving CCPs because we've had more risk in derivatives concentrated in them so we need to have a proper resolution mechanism. So there will be a number of areas where I think we will need to take action at an international level and follow the broad agenda.

But I don't think one should conclude that trying to increase the role that capital markets play will in itself pose a risk to financial stability. On the contrary, in the EU, where we have had historically and for cultural reasons a very heavy reliance on the banking sector, and I think the figures -- people use different sets of figures, but broadly speaking we are sort of 80 banking and 20 percent capital markets, and the U.S. is broadly speaking the other way around. I know people argue about the figures, but that's the scale. So when something happens in your banking sector, which happened to us, you have a bigger risk to financial stability. So spreading that risk by increasing the contribution the capital markets can make seems to me sensible.

On supervision, again, we have a question in there as to whether there needs to be more convergence around supervision. We set up very recently in the EU some supervisory bodies and I think we think they got off to a good start. I haven't so far, but we'll see what people say in the Green Paper, seen evidence that makes me think that the lack of a single supervisor is the biggest obstacle to the development of a single market for capital.

And reverting to the earlier question about the kind of time scale and phasing of it, if I don't see that there is a compelling practical reason to proceed with a major institutional change, by nature, because I'm quite a sort of pragmatic person and because I want to make progress, I don't want to spend time having large arguments about institutional change, which by its nature is very political and takes a long time, if that is then putting a block on making progress in other areas. So I'll take I hope what will be a rational and sensible view on the basis of the evidence, but I think with our existing systems, we've probably got further we can go to get better convergence without having a great big change.

MR. ROLAND: Hi. Neil Roland with MLex News based in Brussels.

Your predecessor's dealings with then CFTC Chairman Gensler had a certain cacophony to them. How would you characterize your dealings with current CFTC Chairman Massad?

LORD HILL: Well, at first, I'm sure you will, you'll need to ask him what he thinks because a relationship is a two-way thing. I took an early view that I was keen to have a very good relationship with Chairman Massad. He performs an important role and we have joint interests in trying to resolve this question of over ECP recognition. He was one of the first people I spoke to. We've spoken since and I was very glad to go and see him this morning. So I think it's important that I have good relationships with my interlocutors in the United States.

SPEAKER: (off mic)

LORD HILL: Well, it was last time I saw him. (Laughter) But, you know, things can change in four or five hours. And no, we had a good, constructive conversation this morning and I think both of us are people who want to try and find a solution to an important issue.

MS. OSOCHO: Marie Osocho, a Russian journalist based in Germany.

Lord, what is your view of the TTIP, as the current negotiations around TTIP now? So where do you see is the main obstacles at the moment? Thank you.

LORD HILL: Well, first of all, I won't go into the ins and outs of the whole trade deal because that's obviously being led by my colleagues and I don't think it's always hugely helpful to provide detailed running commentary on what are evolving negotiations. Personally, I am extremely supportive of free trade and of TTIP. I think that if one is serious about wanting to take every measure one can to increase the potential of economic growth and, therefore, to help people with jobs, one should be pro-TTIP, and I am.

I think there are clearly issues of some political sensitivity in the EU, I mean different from here. And I think that provides a context within which we have to operate. And it means that in the EU we need to be as open and transparent with our citizens as we can be and build trust and explain the benefits and deal with misapprehensions and some myths as they arise. But I think that's something that we can do. The Commission is supportive of securing a free trade deal. I very much hope that we'll be able to do that. I think we've got an opportunity to do that now and I think the United States are keen to do it, too, and I hope that we'll succeed in doing so.

MR. ELLIOTT: Yes, Erick.

MR. GUSTAFSON: Thank you, Doug. Lord Hill, I'm Erick Gustafson with Marsh & McLennan Companies. Thank you for your comments thus far.

How do you think about American equivalency to Solvency II? Is there a concern that you have about bringing our two insurance markets more closely together around a common standard?

LORD HILL: Well, I think in all issues where we have got to work out the equivalence between our two markets (audio skips) to those issues and cautious about that. I think on Solvency II, it's been a long-running issue obviously in the EU. We've arrived at a conclusion which I think we now need to implement. There are some facets of it, and this comes back to some of the earlier conversation about is it possible to look at things and look at calibrations? People say if you want to get insurers to make long-term investment in infrastructure, for instance, you need to look again at some of those requirements. And I think that's something that in (audio skips) prepared to do.

More generally on the insurance area, you know, there are issues that we need to sort out with or work on with the (audio skips) some specific issues you'd like to raise with me subsequently or with my people, I welcome it.

MR. BERGER: Yes, thank you. Jim Berger from Washington Trade Daily.

If I can get back to the TTIP question again, but talk about your portfolio. Has it been explained to you why the U.S. reluctance to put regulatory and financial cooperation within sort of an umbrella? And, in fact, does it make any difference?

LORD HILL: I'm sorry, and?

MR. BERGER: Does it make any difference whether it's part of TTIP or not?

LORD HILL: Well, as I was trying to explain earlier, I think it does make a difference because I think that if we can have a more formal way of working together on regulatory issues that will be in our common interests. I think at the moment we have a situation whereby there will be a whole number of issues which affect both our continents and our businesses significantly, but we get around to trying to resolve them and discuss them at the end of the process rather than at the beginning of the process. And I think if we have got a more structured approach where we are able to have those conversations earlier at a proper level, at a senior level, where people take that seriously, working together, flowing from agreements entered into at an international level, I think that makes sense for both of us.

SPEAKER: (audio skips)

LORD HILL: Will it change? Well, where we are is in a negotiation instead of discussions. It's got a long way to run and this is one strand of a multi-intertwined relationship. So we'll have to see where we end up, but I think it's something that's worth arguing for.

MR. ELLIOTT: I'm surprised you didn't say you had hopes they would see the right. (Laughter)

We'll just take a couple more questions. The commissioner's been extremely patient. Back there.

MR. SKILL: Thank you very much. Andre Skill (phonetic) with Kaynell Gates.

I wanted to ask you a quick question that came up during your exchange of views yesterday with the Econ Committee. Obviously, it was the first opportunity to kind of consider the Green Paper and some Econ members expressed concern that the Green Paper might look a little bit too much like the U.S. capital markets. And I know you pushed back against that to say that obviously a study of other capital markets is important and we can learn from that.

I wanted to ask you to what extent do you think that that might be an obstacle going forward in terms of members of the European Parliament having that type of opposition? And if that is an opposition, you know, are there other measures to actually implement the Capital Markets Union besides legislation?

LORD HILL: I don't believe it should be a problem. I think, firstly, everyone should learn from other models and no one should have any shame or hang-up in doing that. The simple point that I think they wanted to hear from me, which happens to be my view, is that capital markets having a single market for capital would be, for the reasons we've discussed, I think good for Europe. But what I'm not -- you know, it wouldn't make sense to ape someone else's model. As we've already discussed, we have different histories, different structures, different laws, different cultures going back over a very long time. And just to say, okay, let's kind of cut-and-paste the American model and import it into the EU, A, it wouldn't make sense, but, B, it would never happen. So I think that's what that exchange was about.

Personally, I -- you obviously are a remarkable person if you have been following the workings of the Econ Committee in the European Parliament very closely. (Laughter)

MR. ELLIOTT: He could be a Lord Hill groupie. (Laughter)

LORD HILL: I thought I'd seen him at other meetings. (Laughter) But I felt from that meeting, actually, that there was broad support from across the political groupings for the idea of capital markets and there wasn't a sort of no capital markets sounds comes from America, therefore, we don't want to have it. So I thought it was a good and constructive exchange from which I went out actually, you know, encouraged that I think we can look in a sensible way at some of these alternatives.

MR. ELLIOTT: You've got it coming over there.

SPEAKER: I'm Lee (inaudible) from the Chinese embassy.

What is the division of labor between you and the Central Bank of Europe on financial stability and other jobs?

LORD HILL: Well, there are a range of bodies within the European Union who deal with financial stability, so there's the European Central Bank and then the various governors of the individual banks would all have a responsibility, and some of the (audio skips) individual member states. What was set up a few years ago was a body that attempted to provide a forum in which the various people with responsibility for financial stability, so from the Central Banks of the different member states and the ECB, could all meet, and me as the commissioner.

So that takes place regularly in Frankfurt at the ECB, chaired by Mario Draghi and with involvement of Mark Carney from the Bank of England. And there we try to identify issues that might be coming up related to financial stability and agree on an approach that we can then take forward. But also, obviously, we've got other -- at an international level, the FSB is doing a lot of work on financial stability, as well.

MR. ELLIOTT: Well, thank you very much, Lord Hill. I appreciate your time.

LORD HILL: Thank you. (Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016