EUROPEAN COMMISSION

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The transatlantic relationship in financial services: a force for positive change

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Good afternoon. It is a great pleasure to be here at the Brookings Institution, a think-tank as respected as it is long-lived. 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 shaping them.

For it was 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 to make the case that not just our history but our future is inextricably linked. What better place to argue that the transatlantic relationship in financial services can be – must be – a force for positive change.

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 a fifth - one fifth – of the number of new legislative proposals 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 our priorities. We have a new drive on building the single market – in capital markets, in energy and in digital services. And we are committed to increasing trade in general – and TTIP in particular. This is an agenda with which I am comfortable as someone who is pro-trade, pro-competition and pro-markets. We are all shaped by our upbringing. And I am the son of a small businessman who set up his own business before falling prey to the lure of politics.

How do I apply the Commission's focus in my new job? I am committed to financial stability as the best way of underpinning sustainable growth. But I am 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 – just about – 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.

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 every day.

Since the financial crisis we have 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 destabilise 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 now have the Banking Union which will help break negative feedback loops between sovereigns and banks – promoting the integrity of the eurozone and the stability of its banking system.

I will work hard to make sure that things stay on the right track. I will tackle other major sources of risk, by taking forward proposals that are currently under negotiation, such as on Money Market Funds, benchmarks and bank structural reform. And we are 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. Businesses need certainty to be able to plan ahead.

I also want to take a close look at the cumulative effect of the laws we have passed to make sure we have got the balance right between reducing risk and fostering growth. And if we find we haven't got it exactly right, we should have the confidence to change things. I will look at all regulation through the prism of jobs and growth.

Another way of course that finance can support growth is through well-functioning capital markets.

Last week we launched the Capital Markets Union, Europe's flagship project to build a single market for capital for all 28 Member States.

While President Juncker's 315 billion euro Investment Plan will help kick start growth, the goal of CMU is to unlock investment for the long term by linking investors and savers with businesses and growth.

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, particularly SMEs and start-ups. We want to remove the barriers that stand between investors and investment opportunities; and we want to make the system for channelling those funds more efficient.

In many parts of Europe, companies often struggle to get the funding they need to expand. They tend to rely on the banks and far less on capital markets. Here in the US, the opposite is true.

This reliance on banks makes the European economy more vulnerable when bank lending tightens. We saw this happen during the financial crisis, and we saw banks and investors retreat to their home markets. Our capital markets remain fragmented, largely along national lines. This is what we need to fix.

The Capital Markets Union should 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 about complementing the role of banks, not displacing them. But some companies would welcome more options for financing. And in some EU countries, where banks are not lending, our start-ups and our SMEs are struggling. So yes, we need to be able to tap into alternative sources of funding.

If we look at venture capital, the US venture capital market is about five times bigger in the US than in the EU. If European venture capital markets were as developed as they are in the US, we estimate that companies would have been able to tap into an extra 90 billion euro of funding between 2008 and 2013.

Building a single market for capital is a long-term project and it is certainly an ambitious one. We will need to work hard on difficult, sometimes long-standing issues, such as securities laws, investment restrictions, tax treatments of debt and equity, insolvency regimes.

But the prize is a big one. 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 retirement will be able to benefit from a wide range of affordable investment opportunities; and investors will come from all over the world to invest in the EU because they know our capital markets are safe and stable.

I am also keen to make some early progress. On securitisation, we want to encourage the development of an EU market for high-quality securitisation, which is transparent, simple and standardised. If we can achieve that, we can help free up banks' balance sheets so they can lend to households and businesses.

This doesn't mean that we will be going back to the bad old days of subprime mortgages. To the highly complex, opaque and risky securitisation 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 standardised products.

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

I don't believe there is a silver bullet, one simple lever 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 assurances as the countries they do know. And if the EU has bigger capital markets that will mean more is being invested in US companies as well.

The CMU 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 US.

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. That's why international cooperation matters so much. That'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 dollars in total commercial sales each year and employing up to 15 million workers. The US and Europe are also each other's primary source and destination for foreign direct investment.

The transatlantic economy is the largest and wealthiest market in the world; with the EU and US together making up around 40% 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, human rights and political free choice, as well as caring for the environment.

Because if we do not lead, others will step forward. China's stock market capitalisation 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 G20 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 have supported that process and we know the importance of international consistency.

The G20 gave us direction and other organisations such as the FSB, the Basel Committee, and IOSCO provide 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.

We are 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.

This is where the work at bilateral level comes in. The EU and US cooperate closely on many issues and 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 at least 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.

We need to have a more solid, treaty-based system for regulatory cooperation. Which brings me to the Transatlantic Trade and Investment Partnership.

Both the EU and the US 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 US, 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 US would be able to rely on each other's rules.

The benefits of transatlantic cooperation are clear. We would provide a larger and more efficient market place 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 US in financial regulation.

We know there is resistance in the US to stronger transatlantic cooperation in financial services being anchored in an international treaty. But I think that many of the fears are unfounded. We are not trying to create identikit legislation in Europe and the US; we simply want to make them more compatible.

It is a question of common sense. We offer cooperation. Sure, at times, there is 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. Quite the contrary, we want to use the TTIP treaty to anchor our constructive cooperation and give it a permanent base. 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 be built not 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.

Thank you.