What role for the EU in the regulation of financial capitalism?

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Since the 2008 financial crisis erupted, Europe has landed "in the midst of a once-in-a-lifetime crisis", as the October 1st 2008 European economists call to action began.[1] Europe has faced the crisis with a regulatory equipment that was meant to address different priorities and different risks, one that was not designed for such depth of cross-sectoral financial contagion and cross-border systemic interdependence.

It would be an understatement to say that unfettered financial capitalism has been dealt a heavy blow, in both the real and the paradigmatic sense. The financial crisis spread with great intensity and speed from the banking and financial sector to the real economy, and from the directly affected sub-sectors to a global scale. The IMF has predicted the heaviest world recession of the last 60 years. It has been shown almost beyond doubt that the critics of total financial deregulation were right and the defenders were wrong. Consequently, Europe is well entitled to take the lead from the US in reforming the global financial architecture. Inside the EU, the argument for a more intelligent regulation of finance has been gaining momentum.

At the same time, despite the relative success in crisis management, the institutional architecture of the EMU emerged as underequipped. True, the crisis has demonstrated the security advantages of the Eurozone financial area being able to rely on a global reserve currency. Yet, the crisis has also reminded us that the EU and EMU institutional architecture was designed for fair-weather financial conditions, inadequately prepared to deal with a crisis of such proportions.

In the rest of the paper we review some of the main weaknesses of the EU and EMU financial architecture, sketching principal directions of reform.

I. Target financial stability

The EMU architecture has been designed with the priority of safeguarding price stability in the Eurozone, leaving financial stability aside. After a long period of excess financial liquidity flowing into and from the European financial markets, asset price inflation, imprudent accumulation of financial risks and overreliance of financial institutions on leverage, this omission invites renewed interest.

[1] www.voxEU.org

While it is well the case that the euro has crucially contributed to economic and financial stability,[2] financial stability as such has been absent from the macroeconomic models used by the ESCB, and EU central banks in general. Several economists and institutions, including the Bank for International Settlements, have long proposed the need for central banks to target asset price inflation as well, with an eye on preventing asset price bubbles. Moreover, as Paul de Grauwe suggests, "since financial stability these days also depends on avoiding deep recessions, stabilizing the business cycle should also be of concern to the central bank".[3] This might be departing from the Maastricht-prescribed exclusive ECB focus on monetary stability, a field where the ECB has so far demonstrated success. Recent financial developments, however, have shown that a narrow definition of CB success as confined to price stability is not enough. There is a case to be made for the ECB and other EU central banks to follow more closely financial sector asset price movements.

Many believe it is now time to set the agenda for a revision of the Treaty of the EU, to grant supervisory authorities and formal lender of last resort capabilities to the ECB, the only institution able to issue unlimited amounts of a global reserve currency.[4] The Treaty on European Union (art. 105.6) provides the possibility of transferring Eurozone banking supervision (except for the insurance sector) to the ECB, following unanimous EU27 Council decision. Alternatively, a new supervisory authority for Eurozone banks could be created as separate institution next to the ECB. Further below (under section IV) we will briefly examine the arguments and weigh the competing alternatives.

II. Too big to supervise: integrated markets, fragmented governance

The regulatory and supervisory status quo suffers long-standing weaknesses, which have been a regular subject of debate and which the recent financial crisis has helped reveal. The status quo is weak on both crisis prevention and crisis management structures.

The structure of financial supervision in Europe is not commensurate with the degree of financial market integration. It thus fails to ensure the desired efficiency and stability of the financial system. Back in the late 1980s and early 1990s, when the EMU was designed, few banks in Europe had cross-border operations of a significant scale. Following waves of cross-border bank mergers and acquisitions this is no longer the case. Globalization and financial market integration have resulted in the largest European banks having become not only too big to fail but also too big to be saved. For example, at the peak of the September 2008 crisis, total liabilities of the Deutsche Bank were equivalent to 80% of Germany's GDP, Barclays almost

[2] Döhring and Temprano-Arroyo, 2008.
[3] De Grauwe, 2008.
[4] Within the Eurosystem, the ESCB is practically the lender of last resort on a pan-European basis, though national level lender of last resort capacities legally rest with national central banks.

equal to the British GDP, and Fortis 300% the Belgian GDP.[5] In 2007, the 46 largest EU banking groups held 68% of all EU banking assets, and 16 of these 46 groups held at least 25% of their EU assets outside their home country and were present in at least six other EU member states.[6]

The infrastructures of European financial markets (such as clearing and settlement provision) have become increasingly internationalized. This is a factor of efficiency in good times, and financial contagion at times of crises. Potential failure of large pan-European financial institutions can spread across national boundaries to other member states, as a result of several transmission channels: directly via interbank markets, counterparty risk and investment in financial assets issued by the institution in question; indirectly via abrupt changes in asset prices, liquidity or credit crunch, and the impact on GDP or the euro exchange rate.[7] Such combinations were witnessed in the latest financial crisis.

The current institutional structure of regulatory and supervisory fragmentation hampers the chances of an effective crisis management whenever a pan-European financial group got into trouble. The case of Fortis illustrates the weaknesses of defending against a fully-fledged euro-area crisis. Fortis was eventually saved after Belgium, the Netherlands and Luxemburg nationalized it by pouring in billions of euros. The bank was divided in three, each section rescued by the corresponding government. In the case of Fortis such cross-national geographical distribution was relatively easy, but several other large EU banking groups are far more difficult to divide between countries. In cases such as that of Fortis, no European solution was possible. The ECB can only provide liquidity against collateral to keep the money market functioning –and indeed has earned praise for the speed at which it pumped cash into a frozen financial system. But the ECB has no powers to resolve a solvency crisis. In the absence of a European Treasury, such operations can only be carried out by national authorities, which however are naturally reluctant to pay for the rescue of banks abroad.[8] In the months that followed the initial outburst of the crisis, financial protectionism was evinced in the reluctance or refusal of EU national central bank authorities (such as those of Austria or Greece) to allow banks to use bailout funds to support their distressed cross-border subsidiaries.

The problem calls for Europe-wide institutional responses. To begin with, pan-European banks should be subjected to fully consolidated capital requirements and supervision (more on which anon). Uncoordinated national responses, resulting from a weak political centre in the Eurozone and the EU, generate negative externalities and regulatory arbitrage. The deepening of integration in the Eurozone and further strengthening of a single voice for the Eurogroup are obvious desiderata. Moreover, at times of crisis, the European Investment Bank could be organized to undertake rescue operations at EU level, by taking up stakes in pan-European financial institutions under stress.

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[5] Gros and Micossi, 2008a.
[6] Deutsche Bank Research, 2007, p. 3.
[7] Deutsche Bank Research, 2007, p.15.
[8] Gros and Micosi, 2008b. Also CEPS, 2008, p.41.

The implications of public debt financing difficulties following the slump underscore the tight nexus of interdependencies within the Eurozone. Especially Southern European governments have been hard-pressed to find buyers for their securities at times of excess global supply of government paper. The no-bailout clause is of little use if the credibility of the entire Eurozone is to be endangered by the inability of a Eurozone member-state to sell its debt, or by a referral of a Eurozone government to the IMF. The proposed issuing of a Eurobond (promoted by President Sarkozy and Eurogroup Chairman Juncker) would significantly lower the cost of public debt financing for the member-states under stress. It should be followed by Brussels-dictated conditionality, aiming to bring profligate governments back to the fiscal sustainability track.

The crisis has demonstrated the inadequacy of individual responses. In an interdependent European banking system, national-level responses exercise beggar-thy-neighbor effects on neighboring EU banking systems. Such was the case in October 2008, when countries like Ireland and subsequently Greece initially announced unlimited blanket guarantees for all bank deposits, opening opportunities for regulatory arbitrage at the expense of neighboring banking systems. The recent developments, and the rapid spread of financial contagion from the US to Europe and the world, point to the highly destabilizing effects financial integration and globalization can have when not followed by corresponding governance structures.

III. The shortcomings of regulatory fragmentation

The status quo regarding the supervision of EU cross-border banks and insurance companies calls for reform. Presently, European markets face a diversity of different rules and supervisory practices. The level playing field is not level at all, which already encourages regulatory arbitrage. The issue of unified banking supervision has been left unresolved, stalled by cross-national differences.

Fragmentation of the EU regime of financial regulation and supervision, while testifying to cross-national heterogeneity of political and regulatory preferences, suffers undeniable weaknesses. Information regarding the risk situation of a financial group is not effectively shared among different supervisors. As a result, financial contagion becomes more likely, disruptions emerging in one market potentially spilling over to other markets.

Thus the current system is not effective, and it is not efficient either. As pointed out by a 2007 Deutsche Bank Research report, fragmentation of financial supervision creates duplication in reporting duties and inconsistent requirements for pan-European financial institutions. Rather than being rewarded for advancing the single market, pan-European banks end up carrying additional burdens. From the standpoint of the European financial market this is counterproductive, as it hampers the competitiveness of

Europe's large financial services companies as well as Europe's financial markets at large in global competition.[9]

Supervisory fragmentation is a problem not only in the cross-national but also in the cross-sectoral dimension. Market integration has blurred the borders between different financial market segments and activities. Many of the largest market players in Europe are financial conglomerates. The recent crisis demonstrated the ease with which cross-border risks accumulated by investment banks can spread to commercial banks, mortgage banks and the insurance sector. Credit derivatives, structured products and securitization can transmit credit risk between banking and insurance sectors. Segmentation of supervision by type of institutions introduces distortions when various financial institutions perform very similar functions. In several EU countries, however, particular sectors of the financial market fall in a regulatory and supervisory vacuum. There is a strong argument to be made in support of single, integrated, cross-sectoral financial supervision, including the insurance industry, such as in the case of the British FSA or the German BaFin.

IV. Towards integrated financial supervision

So far, various reform proposals of the banking supervision regime have been floated in Brussels. An improvement in the direction of closer supervisory cooperation has been already under way, introduced by the Lamfalussy Process.[10] The resulting "Level 3" committees bring together national supervisors in regular intensified interaction, aiming to generate convergence of cross-national supervisory practices and simplify compliance with regulatory and supervisory requirements, particularly for large pan-European conglomerates. There are no strong reasons, however, for expecting such convergence to occur in the near visible future. Level 3 committees operate by consensus rather than majority vote, guidelines are of a non-binding 'soft law' nature, and they tend towards low common denominator compromises that seek to preserve national regulatory practices. Thus, while a further deepening of Level 3 cooperation would be a welcome development, there are clear limits as to how far Level 3 committee structures can go in providing a drastic improvement to the current fragmented supervisory status quo.

A. The "college" solution

For cross-border banks (and as an alternative to establishing a single European regulator) mandatory "colleges" of national supervisors have being proposed for European banking and insurance regulatory groups. The college, comprising all supervisory agencies in whose jurisdiction any European financial group has sizeable operations, would be chaired by a lead (i.e. home) supervisor, acting as the single point of contact for the financial group in question. As pointed out by Howard Davies and David Green, this

[9] Deutsche Bank Research, 2007, p.5.
[10] See Quaglia, 2008, chapter 5.

could only provide a solution if the head of the college (the home supervisor) has the authority to ensure that its members exercise their separate sovereign powers in an identical way so as to produce the effect of a single regulator for a cross-border group.[11] In other words, the "college" solution can only be effective provided that arrangements are identical in terms of supervisory practice (which would require a "hard" legislative basis such as an EU-wide regulation), and that the lead supervisor is equipped with a "buck stops here" authority. Without these preconditions, as a collective body, the College of regulators is not immune to familiar collective action-type problems that would weaken its credibility to the markets in event of crisis. One can envisage a relatively smooth transition from the current Lamfalussy process structures to a "college" solution. However, the college regime undercuts supervisory powers of smaller-state supervisors, and the initiatives of the lead supervisor are not immune to generating significant cross-border externalities. Most importantly, the "lead supervisor" regime opens the possibility for different regulatory practices across jurisdictions, violating the principle of competitive neutrality unless some central control is established.

B. A European System of Financial Supervision

Both the Lamfalussy structures and a transition to colleges of supervisors do not adequately redress the principal weaknesses of the regulatory fragmentation of an essentially integrated financial market. These weaknesses can be addressed by a gradual or speedier transition to a European Financial Supervisory Agency, and a European System of Financial Supervision (ESFS), parallel to the European System of Central Banks (ESCB). The ESFS would supervise the pan-European financial groups, smaller financial institutions remaining under the jurisdiction of national supervisory authorities. ESFS should enjoy institutional guarantees of operational independence vis-à-vis national governments, regulators, and other EU institutions, retaining final authority for interpreting and implementing EU financial market rules. ESFS authority over the European financial system would guard against inadequacies or "capture" of national regulators. Most importantly, it would ensure the sufficient scale of operation necessary to prevent or effectively confront cross-border European-level banking systemic crises.

Admittedly, a single federal-like financial regulator for Europe might not be politically feasible, at least in the short term. It would most probably require more than simple EU legislation to be effected, Treaty reform, at a time when major institutional reform initiatives in the EU have been stalled. However, the institutional gaps in Europe's financial regulation regime as revealed during the recent crisis create a favorable environment of public support for bolder reform initiatives. In light of the latest crisis, the advantages of a ESFS in effectively safeguarding financial system stability and maximizing the benefits and opportunities of European financial market integration appear overwhelming. And for the reasons laid out previously (blurred boundaries and deep interdependence of financial market segments and institutions), the

[11] Davies and Green, 2008.

ESFS should be modeled as a single, integrated, cross-sectoral financial market supervisory authority, comprising banking, insurance and securities market supervision under one roof. Integrated financial supervision also makes sense in view of the process towards creating a pan-European capital markets infrastructure, with consolidated stock exchanges, clearance and settlements systems, and so on. Given the desirability of incorporating supervision of the City under a European supervisory scheme, ESFS has the advantage of being able to play this role better than the ECB, as long as the UK remains outside the Eurozone.

There are good reasons for assigning financial supervision to an institution separate from the ECB. It has been established in the related literature that a conflict of interest may exist between financial supervision and central banking, in that a central bank may be tempted to loosen its monetary policy in order to bolster the banking system. It is also important that each institution retain a clear and unambiguous mandate that could neither lead to conflicting objectives nor create risks of undermining credibility in one area as a result of promoting the other.[12] The information acquired by a central bank's participation in the money market and foreign exchange dealings can be shared with the financial supervisor, in a structure of close interaction between the two and the financial industry, without the central bank having to perform a supervisory function. And successful rescue operations can be performed with the ECB in a central role (coordinating private creditors and public funds) without necessitating a joint supervisory function, which can be carried out by a distinct institution. Finally, a clear division of labor between ESCB and ESFS would help to ensure a coherent communication strategy, an institution speaking with one single voice to the markets ("one voice policy"), avoiding conflicting messages and mixed signals emitted in situations of crisis.[13]

C. The ECB as macro-supervisor

As mentioned, a transition to the ESFS would probably come across serious political resistances and reluctance to depart from the legal-institutional status quo. Building on the existing institutional opportunities should be the second alternative option. Assigning supervisory powers to the ESCB would be less complicated, being compatible with the provisions of the EU Treaty. It would also allow the ECB to better pursue the parallel task of financial stability. As already mentioned, the EU Treaty, article 105.6, provides the possibility of transferring the prudential supervision of banks and other financial institutions (except for the insurance industry) to the ECB. In such event the ECB should be assigned full powers of macro supervision. The ECB would not become the sole supervisor of banks but act "within a single institution" with national market supervisors and central banks so that broader financial stability supervision is combined with day-to-day oversight of individual banks.[14] The

[12] For example, a CB's monetary policy credibility could be eroded as a result of a tarnished reputation as financial supervisor.
[13] Deutsche Bank Research, 2007, p.18.
[14] ECB executive board member Lorenzo Bini Smaghi, statement to the press (12 February 2009).

distinction between macro and micro supervision is necessary in order to comply with the principle of subsidiarity.[15] From the standpoint of the ECB, the macro prudential authority has to have access to micro prudential information and vice versa, an exchange of information that can be better achieved within a single institution.[16] The ECB on its part would be willing to play a role in micro prudential supervision as well but nobody should expect it to supervise markets.

A weakness of the solution of assigning supervisory functions to the ECB according to article 105.6 is that the Treaty explicitly delimits the ECB new supervisory role to "specific tasks" related to banking supervision, excluding the insurance sector. This represents an inferior arrangement compared to a full "blanket" supervisory authority over the financial system. For the latter to occur either the EU Treaty should be accordingly revised or supervision should be granted to the ESFS instead of the ECB (again, following Treaty revision). The rapidity and ease with which the recent crisis spread across different market segments has demonstrated the risks of sectoral regulatory and supervisory fragmentation.

Either transition to the ESFS or the attribution of full supervisory responsibilities to the ECB would represent substantial institutional progress if compared to both the present system and the "college" solution.

V. Regulatory interventions for promoting financial stability

Regulatory and supervisory policies have a major impact on the size and nature of informational asymmetries involved in the functioning of financial markets. Disclosure requirements of securities, regulatory standards for bank capitalization, supervisory practices, all contribute to influencing and seek to improve the risk/return characteristics of investment.[17] In principle, not only banks but any financial institution subject to systemic risk (from mono-line insurers to insurance companies active in the derivatives markets, and so on), must be covered by regulation.[18] Highly leveraged hedge funds when moving together as a herd generate systemic risks, thus requiring macro-prudential regulation –though only limited micro-prudential regulation.[19]

The need to regulate applies particularly for markets that have grown to the extent of acquiring systemic proportions, such as e.g. the credit default swaps (CDS). In cases such as CDS, over-the-counter bilateral financial transactions should become regulated under a centralized clearing house, with the power to impose trading conditions aimed to ensure systemic safety.

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[15] Micro-prudential regulation addresses factors affecting the stability of individual institutions, while macro-prudential regulation addresses factors affecting the stability of the financial system as a whole.
[16] Ibid.
[17] Angeloni, 2008, p.11.
[18] Brunnermeier, Crocket, Goodhart, Persaud, and Shin, 2009, p. 23.
[19] Brunnermeier, Crocket, Goodhart, Persaud, and Shin, 2009, p. 24.

At a direct aftermath of the crisis, regulatory initiatives were directed toward restrictions on large inter-bank exposures, and a tightening of the securitization system, so that originators would have to hold capital covering 10% of the exposures they securitize.[20] Such responses remain part of the emergency toolkit of regulatory authorities. It is important, however, to focus on longer-standing failures and potential regulatory gaps in the operation of financial markets.

The recent crisis has offered useful insight over market failures in the functioning of the globalized financial system. Serious principal-agent problems have characterized the behaviour of financial institution managers. The emphasis on quarterly reports skews their investment behaviour heavily toward short-term high-return investments, accumulating sizeable future risks for their company. It has been proposed that bankers bonuses should be held in escrow for a period of e.g. five years, to ensure that profitability is sustainable on the medium-longer term.

Off-balance sheet transactions have been a major source of opacity, concealing risks and liabilities and generating grave systemic instability. It is reasonably demanded that all transactions should be incorporated in the bank balance sheets, which should show all risks undertaken by financial companies.

On a broader level, the current system of regulation operates in a procyclical manner, amplifying the effects of expansion as much as those of crises. In fair weather conditions, the evaluation of the risks is too optimistic, the assessment of asset values runs high, and the resulting exuberance leads actors to undertake even higher risks. On the contrary, when a sharp downturn occurs, the reverse happens, asset valuations fall steeply, market actors are led to panic sales, magnifying the effects of the crisis. The “mark to market” system exacerbates procyclicality.

For all its virtues, the Basel II capital adequacy framework has a tendency to function in a procyclical manner. Charles Goodhart and Avinash Persaud have proposed that Basel II capital adequacy requirements should be raised by a ratio linked to the growth of the value of each bank’s assets. Thus at times of expansion the capital adequacy bar would be raised, moderating excess lending, and building up capital reserves during boom time for the event of a downswing.[21] Countercyclical regulation should be most constraining at the height of the bubble, breaking up with the policies of regulatory laxity and neglect that led to the current crisis.

Moreover, as the collapse of Northern Rock demonstrated, an emphasis on solvency is not enough to prevent collapse if a bank is faced with an acute shortage of liquidity. When the recent crisis broke, the interbank market dried, no bank was willing to lend others for fear of invisible exposure to “toxic” assets. Inadequate liquidity proved the “Achilles heal” and not just for

[20] *Financial Times,* 2008.
[21] Goodhart and Persaud, 2008. Also Brunnermeier, Crocket, Goodhart, Persaud, and Shin, 2009, pp. 29-35.

investment banks during the recent crisis, a lesson future supervisory initiatives would be wise to incorporate.

Regulatory supervision must extend to include the “shadow” financial system (major investment banks, private equity and hedge funds, sovereign wealth funds operating in Europe). The recent crisis demonstrated that a major source of instability in the US has been the lack of any regulation of the derivatives industry. As a principle, regulatory coverage should be complete across the financial spectrum, covering all leveraged institutions over a certain size, in order to prevent regulatory arbitrage.

Regulatory initiatives would be incomplete if they failed to tackle serious patterns of tax evasion that distort actors’ incentives and market function. Global government coordination should target off-shore companies based in tax havens, a scandalous source of tax evasion and financial corruption, especially since taxpayers money has been invested in the banking system bailout.

Finally, private rating agencies have been heavily implicated in underrating the high risks of toxic investments that led to the subprime bubble and subsequent meltdown, and they have not been immune to serious conflicts of interest. For example, rating agencies should be banned from working on the development of financial products and subsequently issuing creditworthiness ratings for the same products. As the role of rating agencies has vital implications for systemic safety and the public interest, it is important to ensure transparency of the methodology and evaluation systems they use. Calculation of risks is often based on some 3-year histories, which has a significant procyclical effect: the good economic health of the last three years gives the impression that the risks are almost null whereas this is not the case. Regulatory initiatives vis-à-vis ratings agencies would certainly require transatlantic coordination, given that many of these firms are based in the US. In this and other related fields of transatlantic cooperation, more favorable conditions for collaboration have emerged under the new multilateralist-oriented Obama administration in the US.

VI. The global dimension

Regulatory and supervisory fragmentation prevents Europe from maximizing the opportunities and benefits of its global financial position. The inefficiencies resulting from fragmentation hamper the international competitiveness of European financial services companies. In addition, Europe’s inability to demonstrate consistently and uniformly applied supervisory standards in all EU financial systems prevent European financial companies from accessing foreign markets (such as the US) on the basis of reciprocal market opening grounded on the mutual recognition principle.[22] And supervisory fragmentation inhibits a more effective leadership role of the EU in global financial negotiations and governance.

[22] Deutsche Bank Research, 2007, p.5.

Institutional weaknesses inside the EU lead to missed opportunities for Europe. Weak institutional structures at global level prevent a better governance of global financial capitalism. At a global level, the 1999-established Financial Stability Forum (FSF) comprising G-7 government, central bank and regulatory authorities, could undertake a leading role in global financial re-regulation, after expanding to G-20 proportions to incorporate emerging markets.

That said, existing global financial institutions (IMF, G7, BIS) are ill-equipped to handle crises resulting from global financial interdependence. The depth of global financial interdependence and systemic contagion in the event of a crisis justify calls for the establishment of a new Global Monetary Authority (GMA). Jeffrey Garten proposes a GMA acting as “reinsurer or discounter for certain obligations held by central banks”, scrutinizing the activities of national regulatory authorities and overseeing the implementation of a limited number of global regulations.[23] It would act as registry and monitoring board for the biggest global financial companies (including banks, sovereign wealth funds, private equity and hedge funds) and “bankruptcy court” for global-scale financial reorganizations.[24]

Conclusion: the road ahead

We have learned from financial disruptions of the past that major crises tend to be followed by regulatory waves, regulation often evolving in a leapfrogging manner.[25] Major crises offer unique opportunity for history-making policy and regulatory interventions, though one must always guard against the risks of over-regulating. However, failing to rise to the level of the occasion and falling short of both what is needed and what is expected presents –under the current circumstances—an even greater risk.

The recent crisis was a hard test for the European financial architecture. On the one hand EU leaders exhibited crisis management reflexes not often seen, averting the worse, and initially providing more effective responses to the crisis as compared to their US counterpart under the Bush administration. On the other hand, the crisis revealed the lurking gaps in the EU regime of prudential regulation and the structural weakness of existing institutions in both preventing and managing pan-European financial crises of history-making proportions.

Europe’s globalized financial system has been a source of considerable dynamism and innovation, benefiting the European economy and its position in the world. However, its governance has been left partly unresolved, with grave implications for systemic stability. Either the establishment of a European System of Financial Supervision or the attribution of supervisory

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[23] Garten, 2008.
[24] Ibid.
[25] Pagoulatos, 1999.

responsibilities to the ECB, while perhaps not politically attainable in the immediate future, represent suitable pathways of reform.

At the same time, well targeted regulatory interventions must seek to align the operation of the deregulated "shadow" financial sector with the interests of the real economy. Imposing greater transparency in the accumulation of risk, countering procyclicality in the functioning of the financial system, aligning the interests of managers to the longer-term interest of their companies, confronting excessive risk creation and remunerations, and preventing some of the market failures that have led us into the recent crisis, are some of the main challenges ahead.

By regulating financial capitalism at home, Europe can offer a viable financial model, exportable and potentially uploadable at global level, thus claiming the role it deserves in the governance of global capitalism. To that purpose, one should never waste the opportunities offered by a big crisis.

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