Speech by Permanent Secretary at Danish Ministry for Business and Growth, Mr. Michael Dithmer, at EU Financial Services Conference, Bruxelles, 9 February 2012.

[THE SPOKEN WORD ONLY]

- Thank you.

- Today's conference has a broad scope. It addresses both the issue of financial regulation and questions in relation to government deficits, sovereign debt and fiscal consolidation. Naturally, this connection is no coincidence since the two have shown to be closely interlinked during the present crisis.

- Since 2008, the financial crisis has had a major impact on the European and global economy. Starting in financial markets, the crisis quickly spread to impact governments and businesses. Today the repercussions of the financial crisis are still being felt in the form of an on-going sovereign debt crisis and a lack of growth across Europe.

- I this way, the financial crisis sets the overall tone for the Danish Presidency. The push for fiscal consolidation and the focus on restoring growth in Europe are key priorities for the Danish Presidency. And important steps are being taken in both areas.

- The new Fiscal Compact, the strengthening of the Stability and Growth Pact, the European Semester, the Euro Plus Pact and the EFSF- and ESM-mechanisms will lay the foundation for a higher degree of fiscal prudence in the future – a necessary condition for durable growth and employment.

- And the re-launch of the Single Market, including the creation of an internal market for venture capital and an agreement on the European Patent, will hopefully contribute to growth across Europe.

- One should, however, not forget that the reasons for the crisis were - among others things - an insufficient regulation of the financial sector in the years up to 2008.

- Therefore, a key priority of the Danish Presidency is to make a strong push for reforms that will strengthen financial services supervision and regulation.

- In my own country – Denmark – a number of initiatives have already been taken to handle the effects of the crisis and to address some of the issues that caused the crisis. This implies that the Danish FSA is active and strict in ensuring the soundness of the banking sector.

- And as Mr. Guersent has just explained to you the Commission has brought forward an impressive number of legislative proposals at the EU-level in the last couple of years.

- Much has already been achieved with the establishment of the European Supervisory Authorities and the ESRB, the regulation of Credit Rating Agencies, Hedge Funds and Short Selling, the limitations set on bank remuneration practices and so on.

- And much more is under way. As Denmark takes over the Presidency as many as ten files are on the table and another four or five are in the pipeline to be published soon.

- Delivering agreements on these dossiers is an enormous task and progress cannot be made on all the files with equal speed. We need to prioritize. But we recognise the importance of each and every dossier, and are committed to bringing all of them closer to agreements.

- I am going to talk to you today about the priorities of the Danish Presidency for the nearly five months which remain of our Presidency. It might not sound like much, but with a strong desire from everyone involved, a lot can be achieved.

- The key ambition of the Presidency in the financial services area is agreement on the CRD4 proposal. It is an ambitious goal, but we are aiming for agreement in Council this spring and if possible agreement with the European Parliament before summer.

- Insufficient capital levels and liquidity ratios were at the core of the financial crisis. The Basel III-framework is in general a strong response to these challenges and the EU should be at the forefront in implementing the standards.

- We are of course aware that this requires much work and great focus and willingness to compromise in a short period of time. But we also believe that a swift agreement is necessary to reduce uncertainty in markets and to contribute to financial stability in the EU.

- And there are a number of important and difficult outstanding issues in the negotiations. Most of them are well known publicly, including the issue of minimum or maximum harmonisation of capital requirements.

- However, we believe that the ambition is achievable if everyone - all the Member States, the Commission, and the European Parliament - work constructively to find common solutions to the benefit of us all.

- The EU needs to show leadership and to underline our commitment to reforms of financial services regulation.

- Our Heads of State and Government signed up to this ambition at the European Council in October, and we are keen to fulfil this.

- And we of course hope that we together with the European Parliament will be able to reach this goal before the summer. I hope Mrs. Bowles can touch upon the views of the European Parliament later today.

- The second big priority for the Danish Presidency is to ensure that the EU lives up to the G20 commitments in the area of derivatives trading.

- Lack of transparency in derivatives markets was a key factor in the rapid erosion of trust among financial market participants at the outset of the financial crisis.

- Derivatives markets entail financial stability issues and we should be keen to prevent such deficiencies in our regulatory framework in the future.

- As you are probably aware the European Market Infrastructure Regulation - or EMIR - has been negotiated between Council and the European Parliament for some time now.

- Based on the excellent work of former presidencies - especially the outgoing Polish Presidency - we are now working hard to finalize an agreement between the European Parliament and the Council. Actually, there will hopefully be a final agreement very soon.

- If we succeed on EMIR the lessons learned from this difficult trialogue will hopefully put us in a good position to continue negotiations with the European Parliament on other files.

- On Deposit Guarantee Schemes and Investor Compensation Schemes, the Presidency will continue negotiations with the

European Parliament, with the aim of reaching a compromise within our Presidency.

- Agreement on these files will create greater security and certainty for consumers and investors, and strengthen the single market by creating a level playing field in the EU.

- However, negotiations are difficult as there are some divisions between Council and Parliament regarding not least the financing of these guarantee schemes.

- On the Omnibus II-directive - which will in essence set the implementation date for the Solvency II-directive - we are ready to begin negotiations as soon as the European Parliament's ECON Committee has taken a firm position. I understand that this will likely be the case in March.

- Finalising the Solvency II-regime, including fixing a date for implementation of the regime, is very important in order to bring certainty to insurance markets.

- If possible, we therefore hope to be able to finalize negotiations with the European Parliament on the Omnibus II-directive before the end of the Danish Presidency.

- Meanwhile, in Council, the Presidency is also working to reach a General Approach on a number of other files.

- These include:

  - The revised Credit Rating Agencies Regulation, which should bring more transparency and competition to rating markets,

  - The revised Transparency Directive, which should remove some burdens for SMEs and thus support growth, and

  - The Mortgage Credit Directive, which should create an internal market for mortgage credit, strengthens consumer protection and contributes to ensuring financial stability in the future.

- Finally, we have on the table proposals for revision of the MiFID-directive and the Market Abuse Directive. Issues which will also be addressed at the conference today.

- Especially the MiFID-proposal has a broad scope and entails many conflicting interests. We will undertake serious work on this file, but it is probably not realistic for the Danish Presidency to close this file in council.

- The MiFID <u>is</u> an important file. There are a number of important aspects in MiFID e.g. regarding consumer and investor protection, derivatives, high frequency trading, market structure etc.

- However, given the timing and complexity of MiFID and the amount of financial legislation already on our plate, it is not likely for the Presidency to make as much progress on MiFID as we would like.

- Let me finally touch briefly on a proposal which is much talked of and is keenly awaited by many – but which we are yet to set eyes on.

- I am of course referring to the forthcoming Commission proposal on a crisis management and resolution regime for the banking sector.

- We need this framework to ensure effective handling of future crises.

- And with some member states - including Denmark - having already put in place effective resolution regimes, a harmonised framework is needed to contribute to a level playing field.

- Therefore, the Danish presidency will have the proposal on crisis management very high on the agenda when it is put forward by the Commission.

- Naturally, our efforts here will depend on the timing of the Commission proposal. If this comes sooner rather than later, the Presidency will aim to have a political discussion of key issues, for instance at the ECOFIN in May.

- So these are the priorities of the Presidency. Will we succeed with all our ambitions? Probably not a 100 pct. But we will do our best to reach agreement on as many files as possible.

- And we will first of all focus on the files which are most important for financial stability, market certainty and consumer protection going forward.

- Are we moving too fast? I don’t think so. There is a need for a rapid and efficient regulatory response to the crisis in order to enhance trust in European markets and economies.

- This is also a necessary foundation for our efforts to move Europe forward and generate growth.

- Having said that there is no quick fix to the difficult situation Europe is in. It will take a long time for financial markets to restore confidence and for our economies to overcome the crisis and regain sustainable growth.

- Some studies show that yearly growth rates will be up to 1 pct. point lower over the next 10 years when you experience not only an economic but also a financial crisis.

- There are signs in some countries that lending to the real economy is dropping off. There is a fear of significant deleveraging by banks in order to meet higher capital requirements. This creates the possibility of a credit crunch especially for SME's.

- The European Council addressed this issue just last week and we should take this very seriously since a credit crunch will impede our efforts to create growth and jobs in the EU.

- Thus we are fighting a two-way battle – to ensure confidence in financial markets as a foundation for financial stability and growth in the long run and to avoid the negative effects on lending to the real economy in the short run.

- Thank you for listening.