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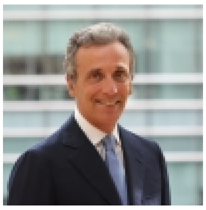
Integration and disintegration: what trends in the EU and potential impacts for the EU financial sector?

Speakers



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Roberto Gualtieri
European Parliament , MEP and Chair of the Committee on Economic and Monetary Affairs

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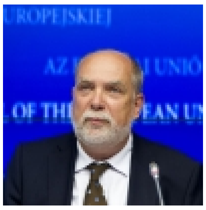

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Objectives of the session

The European Union faces serious external and internal challenges: massive increases in migration flows and the threat of terrorism on the one hand, weak growth, demographic decline, possible Brexit and high levels of indebtedness of several Member States on the other hand. Euroscepticism is on the rise in almost every Member State. All these challenges are continuing to test the cohesion of the Euro. Area.

The objective of this plenary session was to discuss the potential impact of such fragmentation on the EU single financial market, the EU financial industry and the funding of the EU economy and also to define the priority actions that should be implemented to minimize the impact of such fragmentation on the financial system and the EU economies.

Executive Summary

Fragmentation Risks

A 'perfect storm' of challenges now existed, including the situation of Greece, the suspension of Schengen and control-free borders, the high level of unemployment and public indebtedness in some Member States, and the Brexit referendum on 23 June. This posed dangers to Europe's main achievements: the single market, the single currency and the single border. The European Union itself might not be close to disintegration, but a huge amount of fragmentation had already been witnessed. Although the European Commission and the other European institutions were in the process of tackling these problems, the vast number of legacy problems inherited from financial crisis complicated matters.

The EU had been proving itself to possess sufficient capacity, flexibility and political wisdom to deal with the challenges it faced, as could be seen from the example of the UK settlement. However, in coming years, questions of integration would need to be addressed, and this meant not just having multiple speeds, but also multiple directions of travel, with some countries opting for less integration and some opting for more.

Impacts of Fragmentation

Fragmentation was distinct from disintegration: the former might be a temporary consequence of the need to address certain problems where appropriate means to do so did not exist at European level. However, these kinds of solutions would not provide a stable long-term solution to the problems that Europe faced, and would likely introduce more segmentation if they were to become the default approach. Whether the United Kingdom voted to remain within the European Union or leave it, the likely closeness of the vote should act as a 'wake-up call' to Europe, demonstrating that the union that had existed between the 12 pre 1994 member states could not be replicated with 28.

The United Kingdom not voting to leave the European Union would not necessarily resolve the issue on a permanent basis; another referendum could always be held in some years' time. However, if Britain decided to leave, it was not clear whether or not Europe and Britain would be able to amicably conduct negotiations to reduce the impact of Brexit, and what impact this would have on integration within the rest of the EU. A confrontational outcome and no further integration would drive risk premiums up. To mitigate risks, EU member states would also need to stop using the EU as a 'scapegoat' when things went wrong.

Necessary Priority Actions

Deepening the Monetary Union without undermining the single market

The work carried out by the European Council suggested that deeper monetary union might be necessary, such as via banking union; however, if this were to take place, Europe would need to be careful not to introduce any kind of discrimination against those who were not in the euro and who were not part of banking union. The 19 member states that had joined the euro had done for differing reasons, and this would need to be borne in mind.

Combining fiscal discipline with growth-enhancing measures is also important. According to a Panellist, the EU was in the process of finding a way to combine the need for discipline with growth-enhancing measures. The flexibility debate was complex and difficult, but the European Commission was moving in the right direction.

Europe should be more present in the monitoring and in the accompaniment of national structural measures

Given the persistent low growth environment specific emphasis, priority should be given to the implementation of structural reforms which have been the main way forward to boost potential output and productivity growth and to reduce unemployment. It was specified that the EU needed to address the problem of achieving stronger convergence in its structural reforms or economic policy with a stronger enforcement mechanism that contained an element of incentive, which could combine with this new, synchronised fiscal stimulus.

Completing the Banking Union

The Single Supervisory Mechanism and the Single Resolution Mechanism had been very important, but the third pillar on banking union, the European Deposit Insurance Scheme, was extremely difficult for the partner institution to work with. The envisioned end point was a fully mutualised Eurozone fund, which was a goal that remained controversial. Unless progress was made in improving the adequacy of the prudential standards with which bank exposures to sovereigns were treated, and a common view was reached, a political consensus emerging around mutualising debt was difficult to envision.

A speaker stressed that there were a number of important issues with which Europe would soon need to deal, including risk-weighted asset homogenisation, TLAC and MREL, and how global standards could be contributed to and implemented at European level. While doing all of this work, the need to have a proper balance between stability and sustainability of measures would need to be borne in mind; Europe was presently moving in this direction. TLAC and MREL would be approached in an intelligent way, and the European Union, in general, could learn from its mistakes, as had been seen recently in relation to the minimum distributable amount and the Pillar 2 issues recently in SREP. The speaker remained relatively confident that – despite the size of the challenges that the EU currently faced – the resilience, flexibility and internal intelligence that existed within Europe would prevail, taking into account Europe’s particular political rhythm and dynamic.

Developing contractual arrangements

Given the diversity that existed within the European Union, contractual arrangements were very important, but had not been used sufficiently. These had been used within Schengen, but a lot more of those contractual arrangements could be created; these helped differentiate those who wanted to sign up from those who did not. There were many areas of the European Union; those who had a common currency had entirely different integration needs, and members of the Union differed on whether they regarded themselves as members of a free-trade arrangement or members of a capital market. People's views on what kind of arrangement they were in needed to be more clearly spelled out, because both the speed and direction of travel were now visibly different.

Being more ambitious regarding the Capital Makers Union

One Panel member felt that while Europe had been overly ambitious regarding some issues, such as mutualisation of debt, it was not ambitious enough about capital market union, concerning itself solely with eliminating internal barriers. Global capital markets were much more powerful, and needed to be harnessed; to drive this work forward, a European equivalent of the SEC would need to be made responsible for it. Another Panel member added that new European regulation had to be designed to produce more integration, rather than a loose framework that created more diversity. To promote further European integration, the narrative would need to be changed, and there would need to be clear leadership that emphasised the positive aspects of the European Union and the institution's achievements.

Political Approaches

Jacques Delors had referred to a two speed Europe; however, 'two speeds' implied a joint destination, and this was proving not to be the case. The European Union might want to consider offering two, or possibly three, different models of integration, with the goal of producing a higher degree of diversity and political legitimacy without jeopardising the advantages of the internal market, with monetary union and a completed banking union at its core. All EU member states would hopefully be able to unite around the goal of retaining the existence of an internal market within a customs union, with free movement of persons, although the exact form that this would take could be debated. For the financial services industry, this meant having a robust framework for the 28 member states that allowed some states to become more deeply integrated than others.

2017 would be a critical year for the European Union. If the UK's referendum were to be won by the 'Remain' campaign, and strong pro-European majorities were elected in EU member states that were holding elections in the near future, the European Union would be well placed to implement bolder and more ambitious measures. A critical decision would eventually need to be taken by EU member states, probably during 2017, as to whether common tools that entailed some element of risk sharing should be introduced within the European Union, and for these to be implemented, the right political conditions would first need to be created.

Detailed Summary

Fragmentation Risks

The EU faces serious challenges

A speaker stated that, if this panel had been held a year ago, the main concern would have been Grexit. Now, there was a ‘perfect storm’ of a large number of simultaneous challenges. Greece was still an issue, as was the suspension of Schengen and control-free borders and the Brexit referendum on 23 June. Moreover, in a large number of member states, more people were being drawn to the fringes of the political spectrum. Europe was now going through much more troubled times; it was possible that Greece was the lesser problem of these.

Another speaker agreed that the current situation contained ‘all of the ingredients of a potential perfect storm’ (e.g. high level of unemployment, the refugee crisis, the terrorist attacks, the rising of euro scepticism). The issues at stake contained threats that posed dangers for Europe’s main achievements: the single market, the single currency and the single border. These threats were particularly challenging because they not only arose from the difficult external environment but also had an internal dimension, because they put at risk the internal political consensus on European integration.

A panellist stated that Greece was still a problem, but Europe tended to forget about it; in general, across the EU, problems seemed to go away not because they were solved, but because Europe got used to their existence. This was the wrong approach. Despite the huge number of problems faced by the EU, he did not believe that the institution was close to disintegration, but there was undoubtedly a huge amount of fragmentation. Commissioner Hill had just highlighted three important issues, which were the proportionality of legislation; the impact of some of this legislation on limiting global capital; and this level of compliance making life difficult for everyone, especially small businesses. There were a large number of reasons for the market being fragmented, and it was reassuring that the Commission and the other European institutions were tackling this problem.

However, the huge amount of financial, economic and political legacy problems inherited from the financial crisis led to some complacency and made things very complicated. Making the right choices in relation to these big legacies was not simple, and there was a risk of making mistakes. One of the lessons arising from the crisis had been that a better, stronger banking sector was required, but this also needed to be smaller, and fulfilling both goals was extremely challenging. This was the reason why the Capital Markets Union project was so relevant: a stable, growth enhancing financial sector could not be created if this transition could not take place, with much less depending on the banking sector in Europe and a much larger base where capital could work and be directed towards the real economy.

Political wisdom, more optionality and more contractual arrangements were required to deal with these challenges

In the view of one representative of the public authorities, some of the contingency measures that had been requested in the case of Greece were not very wise but he was confident that a workable solution would be arrived at, and the EU would ‘square the circle’ between retaining national sovereignty to implement measures in certain ways and having a commonly-agreed target at EU level. This was the philosophy of conditionality, which was essential to provide financial stability.

Another speaker noted that, more positively, the EU was showing sufficient capacity, flexibility and political wisdom to deal with these challenges, which were very complex. When the UK settlement had finally been arrived at, a tool had been provided that combined what was necessary for the campaign in the UK without endangering the EU's legal framework. It also foresaw a possible constitutional solution to a dilemma that had existed for a long time, regarding how to combine the single market and single currency with opt-outs, while pursuing the goal of ever-closer union.

A panellist recalled that, at Eurofi's last meeting in Luxembourg, he had said that Europe needed more optionality, more flexibility, more diversity and more contractual arrangements in its overly monolithic approach; he recalled that he had probably been the only person talking in this way at that meeting, because Brexit and all of the other issues previously discussed had been months away. Over the past half year, a number of fractious developments had been witnessed: Europe appeared closer to disintegration, at least around the edges, and European policymakers had been wise to put this on their agendas.

Integration was not just about having multiple speeds, but also multiple directions. Some countries would probably choose to have less integration within the EU project than in the past.

Impacts of Fragmentation

It was noted that the concept of fragmentation was different from that of disintegration. Fragmentation might be a temporary consequence of the need to address certain problems without appropriate means existing at the European level, such as the temporary reintroduction of Schengen border controls. National solutions could be put in place to address fiscal or banking area problems, but progress could be made if a workable solution could be identified, and the political consensus to find that solution could be agreed upon. If a European wide solution did not exist, national governments had to act to solve the problem.

National solutions would not provide a stable long-term solution to existing problems. This dilemma could not be solved either by just creating abstract and ambitious programmes for deeper integration, or just by creating a 'piece-by-piece' solution. Diversified integration meant having the euro area and the single market; within the single market, varying issues existed, related to the UK on the one hand and the Scandinavian and Eastern countries on the other. Problems did not just arise between these two groups, but also within them, and this included constitutional problems.

Impacts of the UK referendum

A public authority speaker stated that the Brexit vote, whichever result was reached, would be a close result, and would therefore inevitably give rise to a major question about how the structure of Europe should develop. The process and possible structure of co-operation with the United Kingdom over the coming months and years would vary depending on the result, but no matter the result, the closeness of the vote should act as a 'wake-up call' to Europe, demonstrating that a very homogeneous union between the 12 pre 1994 member states could not be replicated with 28 Member States. Member states' reasons for joining the European Union had been much more diverse than the reasons of the original six, including a mixture of internal market, security, trade policy and transfer issues, and Europe needed to be cognisant of this.

If the vote went as this speaker hoped it would, the consequences would not be very interesting from an intellectual perspective, and he was concerned that many politicians would not draw from it the lessons that they should draw. If, however, the United Kingdom voted to exit the European Union, a much more serious set of questions would be posed. The first question that people would want to hear answered was what the further process was, and how the further relationship with the UK was envisioned to be structured.

People sometimes belittled what the European Council produced on the UK question, but this issue was very interesting, as it posed questions that could go far beyond the UK in their scope, and proposed equivalent importance between the internal market and monetary union.

Another speaker noted that, as well as Brexit, the Greek issue remained recurrent, although it had largely disappeared from the headlines. He would advise European policymakers who wanted to transition towards to risk sharing to stop producing accidents; a number had occurred in Europe, relating to all of the questions that had been discussed, and the British debate was another. Every exit debate created major problems, one of which was that the issue was only resolved if an exit actually occurred. If an exit did not take place, the possibility of leaving was tabled again at regular intervals, and the same was likely to be the case in relation to Brexit.

If Britain decided to leave, one question that would need to be answered was whether Europe would amicably move into negotiations with the United Kingdom to provide comfort and minimise the impact of Brexit, or whether a more confrontational discussion would take place. The latter would lead to a worse outcome. A second question would be whether Brexit would lead to more or less integration in the EU: France and Germany would soon hold elections, and voters would be sceptical about the need for further integration as a result of the British exit. Policy makers would therefore be very cautious, and extend the process of integration over an increased period of time. A confrontational outcome and no further integration would be the opposite of what was needed; on the day after the referendum, people would start pricing risk premiums, and the only way to decrease these was to stop producing accidents.

National solutions on banking resolution might introduce segmentation in the market

A panellist stressed that some countries had more problems than others regarding the state of their banking systems, but without a full European solution, country-specific solutions would inevitably arise. These country-specific solutions, which were inevitable given the incomplete state of the European design, might well introduce more segmentation in the future. These created precedent, and if each country got used to dealing with problems on their own, without a clear design and a homogeneous method of proceeding, instead of moving towards integration, the result would be fragmentation; this hopefully did not mean disintegration, and some of these instruments had been designed to avoid that, but also did not put Europe on the path towards integration.

A speaker explained that the current EU crisis resolution framework and notably the combination of state aid rules and bail-in rules would need to be “carefully and intelligently managed”. Achieving such a combination was a complex task and this speaker reminded the audience that the fact that solutions needed to solve banking recovery and resolution issues needed to be politically sustainable.

Another panellist pointed out that setting a timetable for further integration, with clear deliverables would not necessarily increase credibility within Europe and set policies in motion; the financial agenda, which was crucial and well delivered, would not be enough to change the political sentiment, which was presently ‘terrible’. The narrative regarding Europe was wrong. If there were no accidents, there would be no need for risk sharing, but accidents would inevitably happen, and when they did, countries should not blame Europe but should take responsibility. In the past few years, negative sentiment towards Europe had been created because Europe had been made the ‘scapegoat’ for everything that had gone wrong. However, since national politics had also been blamed, both national governments and the EU were now in the same situation.

Necessary Priority Actions

Deepening the Monetary Union without undermining the single market

Many speakers suggested that deeper monetary union might be necessary, such as via banking union; however, if integration were to be deepened, Europe would need to be careful not to introduce any kind of discrimination against those who were not in the euro and who were not part of banking union.

A panellist added that if the United Kingdom voted on 23 June to exit, the United Kingdom would have a choice between modelling itself on Iceland, Albania or Canada; very few of these institutional solutions provided for free trade in services.

Ultimately, he stated, the 19 member states that had joined the euro had not only done so because they wanted to give up their apparent autonomy regarding monetary policy, but because they wanted to give up their currencies, for varying reasons that included monetary and security issues. Member states’ reasons for joining the European Union had been much more diverse than the reasons of the original six, including a mixture of internal market, security, trade policy and transfer issues, and Europe needed to be cognisant of this.

Combining fiscal discipline with growth-enhancing measures

A decision maker noted that from a fiscal perspective, the EU was in the process of finding a way to combine the need for discipline with growth-enhancing measures. The flexibility debate was complex and difficult, but the European Commission was moving in the right direction; Commissioner Hill had recently spoken in a balanced way about how Europe could combine the need for stability with the need for growth in the area of financial regulation.

If there were concerns about the impact of the present low-interest environment, the ECB’s current monetary policy needed to be combined with other tools. A means needed to be identified to have some fiscal stimulus at the European level, addressing via specific instruments and capacity some important investment projects in the areas of infrastructure, digital single market, and managing Europe’s borders or addressing its security concerns. A combination of EFSI 2.0, or an enhanced Juncker plan, and the potential role of the ECB might also help focus more attention at the national level on the full implementation of Europe’s fiscal rules and complement monetary policy with fiscal policy.

Europe should be more present in the monitoring and in the accompaniment of national structural measures

Given the persistent low growth environment specific emphasis, this speaker added that priority should be given to the implementation of structural reforms which have been the main way forward to boost potential output and productivity growth and to reduce unemployment. He specified that the EU needed to address the problem of achieving stronger convergence in its structural reforms or economic policy with a stronger enforcement mechanism that contained an element of incentive, which could combine with this new, synchronised fiscal stimulus.

Completing the Banking Union

According to a Panel member, some progress had been made in relation to banking union. The Single Supervisory Mechanism and the Single Resolution Mechanism had been very important, but the third pillar on banking union, the European Deposit Insurance Scheme, was extremely difficult for the partner institution to work with. The envisioned end point was a fully mutualised Eurozone fund, which was a goal that remained controversial. Unless progress was made in improving the adequacy of the prudential standards with which bank exposures to sovereigns were treated, and a common view was reached, a political consensus emerging around mutualising debt was difficult to envision.

There had been a proposal regarding risk weights for sovereign exposures, which brought up a multiplicity of issues. Although concern regarding sovereign exposures was understandable, there were many ways to deal with this; the issues of availability and price of collateral would need to be addressed, as these would be massively impacted under such a proposal. Asset allocations of investors and market liquidity would also need to be reviewed before any conclusions could be reached.

A speaker stressed that there were a number of important issues with which Europe would soon need to deal, including risk-weighted asset homogenisation, TLAC and MREL, and how global standards could be contributed to and implemented at European level. While doing all of this work, the need to have a proper balance between stability and sustainability of measures would need to be borne in mind; Europe was presently moving in this direction. TLAC and MREL would be approached in an intelligent way, and the European Union, in general, could learn from its mistakes, as had been seen recently in relation to the minimum distributable amount and the Pillar 2 issues recently in SREP. The speaker remained relatively confident that – despite the size of the challenges that the EU currently faced – the resilience, flexibility and internal intelligence that existed within Europe would prevail, taking into account Europe’s particular political rhythm and dynamic.

He also explained that the banking union needed to be completed: the US experience demonstrated the importance of a common deposit insurance mechanism, and the lessons that could be drawn from the US case had to be combined with the recovery and resolution framework. The issue of the backstop to the Single Resolution Fund needed to be addressed; there were a number of issues, which would hopefully be able to be solved via a pragmatic capacity to combine realism and ambition, while avoiding overly ideological debates that did not help. The following day’s discussion would be interesting, although the speaker noted that he found the Ecofin agenda ‘a little bit surreal’: the foremost item was an element that did not help the EU in its efforts to combine risk reduction and risk sharing. Europe should seek to avoid being divided by an ideological discussion while pursuing stronger, better, and differentiated integration.

A representative of the public authorities stated that, at the Eurogroup and Ecofin meetings over the coming two days, a number of important elements relating to further integration would be discussed; these were elements regarding which a large number of people had strong and diverging opinions. Work would need to take place on backstopping existing instruments, such as the Single Resolution Fund, but ultimately, Europe would face the 'Rubicon' of risk sharing, or sovereignty sharing. This would be the major question that would need to be answered for several years to come.

A Panel member specified that designing an appropriate solution gave rise to two huge preoccupations. The first was making the system sounder, which was a prudential issue, and the second was making the system fairer and more transparent. These objectives were both important and noble, but sometimes gave rise to trade offs, as had been seen in the US. Making bail-ins the heart of the system meant making sure that all of the right moving parts were working together. The bail-in instrument needed to be in place, as did a unified backstop system that was agreeable and workable in a transparent way for everyone.

Developing contractual arrangements

A panellist stated that integration was not just about having multiple speeds, but also multiple directions. Some countries would probably choose to have less integration within the EU project than in the past.

Given the diversity that existed within the European Union, contractual arrangements were very important, but had not been used sufficiently. These had been used within Schengen, but a lot more of those contractual arrangements could be created; these helped differentiate those who wanted to sign up from those who did not. There were many areas of the European Union; those who had a common currency had entirely different integration needs, and members of the Union differed on whether they regarded themselves as members of a free-trade arrangement or members of a capital market. People's views on what kind of arrangement they were in needed to be more clearly spelled out, because both the speed and direction of travel were now visibly different.

Being more ambitious regarding the Capital Makers Union

This speaker stressed that Europe had been overly ambitious on some issues, such as mutualisation of debt, but was not ambitious enough about capital market union. Capital market union in Europe offered great opportunities, but Europeans were only concerned with eliminating internal 'Giovannini' barriers to capital. Attracting global capital to the European Union was much more important than this, because global capital markets were much more powerful. An institution would need to be clearly placed in the driver's seat; although ESMA was 'a great institution', it was a college of supervisors rather than a European equivalent of the SEC, which was what was necessary to drive this project forward.

This should be made an open capital markets union. For some of the proposals, such as the safe and transparent securitisations, the text drafted for the Council was only concerned with intra-EU collateral and intra-EU rules. Europe needed to be integrated into global capital markets; for instance, his financial Institution had global capital market access, but found the European programme to be too timid, with too little drive, too little direction and too little institutional commitment. This needed to be accelerated.

The concept of a European financial transaction tax should be abandoned; the reason it had not yet been implemented was because it was not a good idea. As for EU structural reform projects, while it was true that other countries had moved to structural segregation of certain parts of banking, you only needed to fix something with a prohibition or a mandatory separation if the incentives had not already been killed via price. Regulatory reform and capital requirements had introduced such major disincentives into European financial markets that many banks, due to their orientation towards investing in profitable business, had largely scaled down their operations and no longer took proprietary risk. ‘Overdoing’ this kind of structural segregation without a clear idea of how trading activities, especially particular market making and some de minimis thresholds, were to be defined, risked destroying the market in Europe. These were projects that Europe should move away from pursuing.

Taking more into account the global dimension

A Panel member stated that the new regulation that was introduced had to be designed to produce more integration, rather than a loose framework within which each country found its own solution and created more diversity. Segmentation should not be just an exercise taking place within the European Union: markets were global, which had both positive and negative implications, and those working in this space would need to be very careful and focused, as well as mindful about how what was done within the EU impacted on the rest of the world. Many institutions that worked within the European Union were not necessarily European, and vice versa; as such, in order to have a complete agenda, this needed to not only internal to Europe but also open.

Europe did not need its own rules in the area of securitisations. There were many areas in which European rules should be largely internationally aligned. Ideally, global banks should operate according to one standard; there were now a large number of cross-border definitions of standards, and rather than having a lengthy conversation about how to level out the playing field, it would make more sense to define a minimum standard for everyone to implement before determining whether national gold-plating and national standards were required. The current approach, by which all parties put into place their own approach before discussing how to mitigate the damage caused, was not the best way to set up structures. In general, a lot of what was happening was not co ordinated at the global level: though labour and capital markets were global, regulators were still focused too much on their own fiefdoms, and not sufficiently focused on providing global financial institutions and a global level playing field.

A speaker agreed that the global dimension needed to be taken into account. But he pointed out that it would be contradictory to call for a global solution for securitisation, but also to advocate the front-loading of a European solution on sovereign exposures. Europe should ask itself whether doing so would reduce risk. If there were to be a sovereign default, but the bank involved were to be protected via risk reduction, the sovereign would be more likely to default, due to creating additional stress in the sovereign market and increasing the indirect risk in order to reduce the direct risk. This would not reduce risk overall; although reducing risk was a very serious issue, it had to be approached in a balanced manner.

Political Approaches

The President of Eurofi initiated the Panel’s discussion of this topic by stating that the challenges faced by Europe had been formidable, particularly in the context of stagnant to low growth. Some sort of political initiative at the highest level had been necessary in order to move forward, as had been the case in the past. If the European Parliament, the European Commission and the Council of Ministers were to agree on a certain number of measures, either in the banking union or capital markets union space, set a date and deliver on a date, this would help build confidence. Though there would be arguments about what those measures would be, the President considered that once agreements had been made and progress was seen to be occurring, increased confidence would be the result. He would like to see institutional consensus being built between the three pillars of governance within the European Union.

A Panel Member stated that Jacques Delors had referred to ‘the Europe of two speeds’, but this did not reflect the real situation: ‘two speeds’ implied a joint destination, with one train getting into the same station slightly later than the other. Europe might need to face up to the reality that the 28 member states joined the European Union for many different reasons, but were joined by one treaty, with the exception of the UK and Denmark. Years in the future, Europe might want to think about offering two, or possibly three, different models of integration within the European Union that produced a higher degree of diversity and possibly a higher degree of political legitimacy, without at the same time jeopardising the advantages of the internal market. The core of this would be monetary union, with a completed banking union.

At the level of the 28 EU member states, an ambitious set of joint standards would need to be devised from which individual states could, but did not need to, deviate from. There would need to be a higher degree of homogeneity, or a more level playing field, within banking union. Consideration needs to take place regarding the approximately 130 options and national discretions that had been shown to be in existence by the single supervisor in its initial qualitative assessment. At the same time Europe focused on the homogeneity of the internal market, including for services.

One big issue around which everyone could unite was retaining the existence of an internal market within a customs union with free movement of persons, although there were many different ways of organising what was in place around it. For the financial services industry, this meant that there needed to be a robust framework for the 28 member states that allowed some states to become more deeply integrated. It was much more important to move in this direction than to issue ‘yet another call’ for deepening MU, or Eurobonds. The Eurobond was not an answer to a structural question; it was an issue of partial equilibrium risk sharing, which was what needed to be examined.

Another speaker stated that solutions needed both to solve problems and to be politically sustainable; achieving that combination was a complex task. 2017 was a crucial year; it would follow the referendum, which could well be won by the ‘Bremain’ campaign, as well as important elections in relevant member states. If the British referendum resulted in a positive outcome, and strong pro-European majorities were elected in these member states, the European Union would probably be in a position to take advantage of the existing window of opportunity to put in place bolder and more ambitious measures. Between 2017 and 2019, there would be changes in the European Parliament, the Commission and the Central Bank, and measures needed to be introduced that not only carefully and intelligently managed the issues that existed, but introduced a new answer to these problems.

The problems with safeguarding and making the single market more robust could be dealt with effectively, and the CMU project was very important; the European Parliament supported this. Commissioner Hill's appeal to move quicker on securitisation ought to be heeded, but this would not be contained in the prospectuses that would be introduced this year. These were important steps, but the Parliament looked forward to the Commission devising a more ambitious proposal, addressing insolvency, securities, and other areas that were necessary for a real CMU.

Regarding the Eurozone, and its component issues of fiscal union, economic union and banking union, a critical decision would eventually need to be faced as to whether common tools that entailed some element of risk sharing – which already existed to some extent – should be created. It was obvious that that these were necessary, but first, the right political conditions needed to be created. An institution might solve the problem; by definition, the European Parliament had more ambition. The level of ambition and guidance that the European institutions could provide needed to be combined with the political conditions within Member States, and this would probably happen in 2017; the EU would need to plan for this moment.

To promote further European integration, the narrative would need to be changed, and there would need to be clear leadership that promoted the positive aspects of the European Union. The EU had produced many benefits, but these were taken for granted; younger generations in Eurozone countries could not imagine life without the euro, and none could imagine being without the ability to travel freely around Europe. There was much more that could be done, and there was a lot of disappointment that the single market was not in the position that people had hoped for, but given that Europe was still in a relatively good position despite its problems, the European Union had done a lot of good.