

No more broken promises

Ann Mettler insists the EU 2020 strategy must amount to more than another decade of unfulfilled promises

As we approach decision time on the EU 2020 strategy, opinions flare and recommendations abound. From electric cars to broadband networks, and smart grids to punitive sanctions, everything is up for grabs. But this time around our leaders won't fool anyone. A plan of great ambition and lofty goals without the political willingness to address Europe's real shortcomings will not do this time around, as we are crawling out of recession, suffocating under our debt load and starting to feel the international marginalisation that accompanies our declining share of the global economy.

If the best our leaders can come up with is a battery of feel-good measures and proclamations that will be overly reliant on rosy growth and revenue forecasts, we will only lose more credibility and further damage our long-term prospects. It will take a lot of leadership and action to overcome the cynicism that has been built up in the past decade surrounding the failed objectives of the Lisbon agenda.

While binding targets for EU 2020 – as proposed by the Spanish EU presidency – might be a useful innovation in comparison to the Lisbon agenda, they alone will not make a difference. What will happen in two years time, when member states do not meet their self-proclaimed goals, but no one pays attention because there are no supportive and vocal interest groups for fiscal discipline, innovation and societal renewal? Or even worse, what will happen when leaders will try to water down their commitments and call for more “flexibility”, as they did with the stability and growth pact back in 2005?

Any strategy that does not address two fundamental questions is bound to fail. First, how will it keep the momentum for – and sustain the attention on – modernisation over the coming decade, making sure that EU 2020 will be as hot of an issue in, say 2016, as it is today? Second, how will leaders overcome the fierce resistance they know they are going to encounter by vested interests when implementing policy changes? Without convincing answers and demonstrable willingness to confront these two questions, prospects for success are minimal.



And to be sure: neither the media, nor the public, nor the chattering classes will have the patience to sit through another decade of pious goals, stale bureaucratic debate and precious little action. For that reason, the process and governance that will accompany the EU 2020 strategy will be at least as important as, if not more important than, the agenda and targets themselves. It is the process that will determine the outcome, not a wish list of goals.

If the past 10 years are anything to go by, political leaders are ill-suited to carry forward reform by themselves. That is why they need allies in society that push the agenda forward, that are more ambitious than is perhaps realistic, that educate the public-at-large to gain greater acceptance for change, and that provide the political friction that is necessary to keep policy issues on the front burner, where they belong. Does anyone believe we would be the world's leaders on environmental sustainability had it been

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for our political leaders alone? No, it took the grassroots efforts of hundreds, if not thousands, of environmental groups and advocates to raise public awareness, raise pressure, raise our game in the international sphere. Where do we have even a glimpse of such advocacy in any of the areas touched on by the Lisbon agenda?

The statist, corporatist approach espoused by the current EU presidency which seeks to limit rather than expand the ownership of the EU 2020 by including only two stakeholders in the deliberations does not bode well. A successful agenda must be a shared agenda; an agenda that includes and reflects the full diversity and heterogeneity of society; an agenda that is dramatically decentralised and that treats citizens as mature, responsible beings that deserve to know about – and prepare for – future challenges that will impact their prosperity and well-being. ★



Ann Mettler is executive director of the Lisbon Council, a Brussels-based think tank

On the inside track

Policymakers face some tough questions as they look to fast-track supervisory legislation on over-the-counter derivatives trading, writes **Stewart Macbeth**

Members of the European parliament and US congress are working steadfastly to establish a regulatory framework that will help prevent a repeat of the financial turmoil that recently threatened to unravel the global capital markets. A common theme in these proposed policies is to establish critical infrastructure and reporting processes to mitigate risk, increase transparency and safeguard the integrity of the financial markets.

At the centre of this move towards more regulation is the trading of over-the-counter (OTC) derivatives: complex investment instruments that derive their value from separate, underlying assets such as equity shares, bonds commodities, or interest rates. OTC derivatives are privately negotiated transactions, used by both financial institutions and corporations to manage their risk exposure, for example, to energy prices, foreign currency fluctuations and the cost of material goods.

Given the unique characteristics of these financial instruments and the global nature of these markets, policymakers face an important question as they look to fast track supervisory authority of OTC derivatives. Will there be some harmonisation in regulatory policies across the globe? Will these proposed policies increase or diminish the transparency and flexibility that investors in these products have found beneficial in managing their risk?

The successful implementation of new EU legislation for OTC derivatives will require efforts to ensure that relevant, vital market data on these instruments are made available to regulators in an accessible, transparent, and timely manner. A global system of derivatives regulation must also be created to address legitimate national concerns about protecting domestic financial markets and investors. Achieving these goals and addressing the questions above, we believe, means establishing a single central trade repository for each OTC derivatives asset class, and avoiding the fragmentation of data across





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many repositories and clearing corporations or central counterparties acting as repositories.

Since the DTCC (The Depository Trust & Clearing Corporation) currently operates the only central trade repository globally for credit default swaps (CDS), we can point to the value of such a repository, especially during times of bankruptcy, notably the Lehman Brothers bankruptcy in September 2008. When media reports at the time of the Lehman crisis speculated that financial markets could be exposed to \$400bn

of risk in Lehman CDS, a growing sense of panic ensued. Since DTCC's trade information warehouse had created this repository in 2007 and worked with global dealers to register virtually all CDS contracts by 2008, we were quickly able to calm the mounting panic by releasing data showing the net exposure was closer to \$6bn. The actual associated net funds transfers when completed were \$5.2bn. DTCC is also able to provide, with the agreement of the market participants where necessary, more specific and detailed information, as requested, to US, European, and Asian regulators.

However, in a scenario involving multiple CCPs and trade repositories, data would be fragmented and regulators would lose their ability to see market and systemic risk from

a central vantage point. In the CDS market, this approach would turn back the clock. A central repository for cleared and non-cleared trades per asset class could ensure that regulators have common access to underlying position data quickly, and that the correct aggregation of data including netting is possible, and contagion impacts and exposure concentrations can be identified.

The benefit of a central trade repository per asset class is gaining recognition. In October, the commission published a communication which recommended centralised recording of derivatives trades and the use of central counterparties (a form of intermediary financial institution). Proposals are expected in parliament this year. Meanwhile, the US congress is already reviewing legislation, although current proposals risk causing fragmentation of the data.

International regulators have established the OTC derivatives regulators' forum to provide a means to cooperate, and share information. This process, with the engagement of the parliament and member states, means that a system which operates globally but provides the necessary level of national and regional protection is possible.

DTCC fully supports the commission's goals to strengthen the OTC derivatives infrastructure and ensure a safer marketplace. We believe there is a real opportunity for convergence and finding the right balance in providing regulatory oversight while still ensuring the market can continue to grow and provide the flexibility needed to support the needs of corporate financing worldwide. ★

Stewart Macbeth is general manager of the The Depository Trust and Clearing Corporation (DTCC) trade information warehouse