



## Global Financial Regulation: The End of Europe's Internationalism?

Nicolas Véron  
Senior Fellow, Bruegel  
& Visiting Fellow, Peterson Institute for International Economics  
Dallas, March 17, 2010

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### Europe's Internationalism 1988-2008

- **EU stance: support for global harmonization**
  - Cross-border integration through liberalization
  - Simultaneous buildup of internal market + global market
- **Examples**
  - Freedom of capital movements
  - Basel accord(s) on banking supervision
  - International accounting / financial reporting standards (IFRS)
  - Trading platforms
- **Wide (bipartisan) consensus within the EU**

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## Case study: Accounting standards

- **EU late in the game...**
  - 1973: International Accounting Standards Committee created
  - 1970s-80s: European discussion on accounting directives
  - 1990: European Commission's observer status at the IASC
  - 1995: Communication on a New Accounting Strategy – European Commission recommends use of IAS by European multinationals
- **... but then takes the lead**
  - 2000: EC suggests mandatory adoption of IAS
  - 2002: Accounting Regulation (No.1606-2002) adopted
    - Unanimity of MS (incl. NMS) in Council, near-unanimity in Parliament
  - 2004: all IAS/IFRS standards adopted by EC
    - Controversy and "carve-out" in IAS 39 standard on financial instruments
  - 2006: transition to IFRS completed for (almost) all EU listed firms

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## IFRS Adoption: An Internationalist Stance

- **Regulation 1606-2002**
  - Respects full independence of Int'l Accounting Standards Board (IASB)
  - Adoption mechanism as political safety valve
  - No ability to rewrite standards → high level of international consistency
    - Possibility of "carve-outs": not clear
- **Bandwagon effect**
  - First wave (pre-2005): Commonwealth and EU Neighborhood
    - Australia, S. Africa, Hong Kong, Singapore, Norway, Switzerland, Turkey...
  - Second wave (post-2005): Rest of World except US and Japan
    - China, India, S. Korea, Brazil, Canada, Israel...
    - US: foreign issuers (2008); Japan: optional use (2009)

*"The European Union's decision to adopt an internationally recognised set of standards, rather than create a uniquely European accounting system, provided the necessary encouragement for other countries to adopt a similar approach"*

IASB Chairman David Tweedie, US Senate Testimony, 24 October 2007

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## IFRS: Recent Steps

- **2006: IASB accelerates convergence program with US**
  - Following 2002 agreement with US FASB
- **2007: SEC, EU, Japanese FSA ask for public oversight body**
  - “Monitoring Board” created in early 2009, joined by EU in December
- **Oct. 2008: EU forces IASB’s hand on financial instruments accounting (“Reclassification amendment”)**
  - Negative reaction of global investor community
- **2009**
  - New US administration, SEC more cautious
  - FASB adopts rules on impairment, also criticized by investors
  - IASB and FASB issue diverging proposals on financial instruments
  - G20 reaffirms aim of convergence program completed mid-2011
  - EU delays adoption of IFRS 9 (financial instruments)

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## IFRS: Outlook

- **Increasing voices in EU for reclaiming sovereignty**

*“What we can do is that Europe can very well reclaim its freedom. (...) It’s not the IASB that makes the law in Europe. If we decide to take back control and write the accounting rules in the European directive ourselves without following the IASB, the issue would be resolved.”*

Bank of France Governor Christian Noyer, April 25, 2009

- **Convergence in doubt**

- More frequent IASB-FASB meetings
  - But convergence program deemed overambitious by many accountants
- Financial instruments: are differences irreconcilable?
- Constitution Review, Feb. 2010: convergence goal downgraded?
- SEC communication, Feb. 2010: conditions for adoption
- Asian-Oceanian Standard-Setters Group formed in 2009
- Prospect of fragmentation along regional lines?

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## A Broader Trend?

- **Other key topics**

- Hedge funds and private equity
- Rating Agencies
- Reform of OTC derivatives / clearing houses
- Naked CDS?
- Basel rules?

- **A new context**

- 1988-2008: integration through liberalization
- 2008- : fragmentation through reregulation?
- A trade-off between internal market cohesion / external barriers?
  - Larosière report, Feb. 2009, and subsequent reforms under discussion

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## Thank You For Your Attention

Nicolas Véron  
+32 473 815 372 (Europe) / +1 202 550 0614 (U.S.)  
n.veron@bruegel.org

[www.bruegel.org](http://www.bruegel.org)

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