Remarks by Deputy Assistant Secretary Mark Sobel at the European Financial Services Conference

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BRUSSELS - Thank you for this opportunity to offer a U.S. perspective on international and Trans-Atlantic financial regulatory developments.

It is easy to open a newspaper and read that the international financial regulatory agenda is bogged down and excessively complex, involves extra-territorial reach and reflects large divergences among key players.

Today, I would like to offer a more sanguine perspective.

Undoubtedly, doing things right may cause delays and complexity is unavoidable. We clearly can do better. But there is greater unity of purpose, internationally and between the United States and Europe, than is often assumed.

The global financial crisis brought to light fundamental weaknesses in the resilience and integrity of markets, as well as regulatory and supervisory lapses.

The response was swift and forceful – and necessarily so. At U.S. urging, the G-7 commissioned the then Financial Stability Forum to undertake a comprehensive study of what went wrong and what was needed to restore market resilience. A comprehensive agenda was put forth, which was adopted by the G-20 at the Washington Summit, and then elaborated at subsequent G-20 gatherings, from the London and Pittsburgh Summits in 2009 to the Cannes Summit last November.

In short, a strategy for reform has been put in place, along with a key role for the Financial Stability Board (FSB) in facilitating timely results-oriented execution.

To a significant degree, this strategy is now transitioning from design to implementation. This year in the G-20, the United States is emphasizing progress on implementation in three key priorities – capital, resolution, and OTC derivatives.

***Capital**:* If there is one central lesson from the crisis, it is that financial institutions were woefully undercapitalized and unable to withstand significant stresses, let alone of the magnitude seen during the crisis. Basel 2.5, in raising trading book and securitization charges, and Basel 3, in raising the quality and quantity of capital, are tackling this fundamental weakness. So too are the higher loss absorbency requirements for globally systemic international banks.

But differences in measurement of capital adequacy ratios across borders also posed a challenge to resilience and a level playing field. This too is being tackled. Common definitions of capital were agreed as part of Basel III, and importantly, the Basel Committee is now working to ensure more consistent measurement of risk-weighted assets across jurisdictions.

On liquidity and leverage ratios, progress is also being advanced.

All of these steps are internationally agreed. While there are important debates, for example about liquidity run-off ratios and measurement of capital deductions, these are more in the realm of the technical. To be sure, these technical issues are important. Still, it is hard to find significant distance between the United States and EU on the big picture. Clearly, it is the U.S. view that Basel III commitments should be faithfully implemented.

And lastly, capital is already being strengthened. In the United States, 93 of the top 100 domestically owned U.S. bank holding companies have tier 1 common equity at or in excess of 8% of RWA.

Resolution: Strengthening cross-border resolution regimes is a difficult issue given diverse national bankruptcy laws and the unrealism of a global bankruptcy regime. Yet, the G-20 has endorsed "Key Attributes of Effective Resolution Regimes for Financial Institutions", setting forth the elements that all countries should include in their regimes to resolve financial firms without severe systemic consequences and taxpayer loss, while maintaining vital functions.

The fruits of this labor are already evident – cross border crisis management groups for the largest firms have been established, cross border cooperation agreements will be put in place, and recovery and resolution plans are being developed. Much of this work will be completed by the end of the year.

Under Dodd-Frank, the United States now has the authority to resolve all financial institutions whose failure could have serious systemic effects. And Europe is working toward similar ends with its crisis management framework.

Derivatives: The Pittsburgh Summit shined a spotlight on the opacity of derivatives markets, providing for exchange trading of all standardized OTC derivative contracts, clearing through central counterparties, and reporting to trade repositories by end-2012.

Here too, the record on international cooperation is good. Dodd Frank creates a framework of oversight, protections and disclosure for OTC derivatives markets, consistent with the G-20 framework. The CFTC and SEC are well into their rule-making process. In Europe, regulations are moving forward on market infrastructure and financial instruments.

Of course, derivatives regulation is a complex terrain where the devil is in the detail. Yet, the United States and EU have closely cooperated in crafting their frameworks, and the similarities in details are striking -- whether it is central clearing, multi-dealer electronic trading platforms, capital, or timely reporting to trade repositories. This cooperation is not happenstance. It is an outgrowth of the strong work over many years between the U.S. and EU that laid a foundation for welcome and intensive dialogue between the CFTC and SEC and DG Markt and European Securities and Markets Authority.

Importantly, the U.S. and EU are also backing global work on margins on un-cleared trades. And the United States and EU are also working together on developing a legal entity identifier system for financial contracts, a new global standard which will help us understand and monitor systemic risk.

Going forward, we still face a daunting agenda on derivatives – avoiding geographic mandates; doing our utmost to meet G-20 timetables; and reaching out to others around the world to ensure alignment.

While I have focused on capital, resolution, and derivatives, there are many other aspects of the agenda where cooperation is being advanced -- taking forward work on shadow banking; accounting convergence; non-cooperative jurisdictions; and reining in imprudent compensation structures.

Under Dodd-Frank, the United States created the Federal Insurance Office (FIO) to coordinate federal policy on international insurance issues and represent the United States internationally. The FIO and EU met a few weeks ago and agreed upon a work plan, to be completed this year, on areas for which insurance regulatory reform may be appropriate. We hope this work will be helpful in addressing issues that have arisen between the US and EU, for example reinsurance collateral and Solvency 2, and in dispelling uncertainty that has concerned the international insurance community.

Eight years ago, I spoke at a conference in Brussels and underscored that the U.S. and EU needed to work together pragmatically, focusing on achieving our common objectives for financial reform. In subsequent years, we did precisely that and good progress was made on what we called "outcomes-based equivalence".

Our cooperation continues unabated. But increasingly, given the breadth of reforms to address the crisis, cross-border or third country implications of our financial reforms are understandably on the front burner. We all want to protect the safety and soundness of our markets; we want others to meet high standards; we want a level playing field; and we want the benefits of global finance. This is very complicated, and an area where strengthened cooperation is needed internationally.

How then do we shape cross-border regulatory cooperation? How can a cross border transaction or flow take place without being subject to conflicting, over- or under-lapping rules? Mirroring the complexity of the task, a dizzying lexicon of approaches grows daily – harmonization, reciprocity, national treatment, registration, convergence, equivalence, strict equivalence, effective equivalence, consistency, mutual recognition, substituted compliance, home/host, and the list goes on.

Rather than enter the realm of dictionaries and semantics, we should re-affirm and abide by the consensus behind the principles that guide our work:

· Major financial centers should rededicate themselves to seeking convergence and consistency on standards and principles where activities extend markedly beyond the water's edge. They should also rededicate themselves to a level playing field and non-discriminatory treatment.

· These centers should reaffirm that a multiplicity of standards in any one market is undesirable and would diminish transparency and facilitate gaps.

· National regulators, working together via international standard setting bodies, should agree upon high quality standards, and in turn commit themselves to faithfully promulgate these standards at home.

· Given that each country has its own laws and history, major centers should not focus on whether **identical** frameworks are being created, but instead on whether their frameworks achieve similar high-quality objectives and outcomes.

· Finally, through supervisory cooperation, countries should strive for consistent application and enforcement of their frameworks.

These are guiding principles behind the G-20 Leader's push for financial regulatory reform. Each Summit has progressively built upon these principles. I believe that such principles, if rigorously followed in major centers, could facilitate a more resilient global financial system, cross-border financial market activity and a race to the top. They could guard against a complex array of different approaches, while providing greater confidence that safety and soundness are being achieved. It is important that each G-20 member not lose sight of the bigger picture.

In conclusion, the international regulatory reform agenda is moving forward. It has the firm backing of the G-20, the FSB, and of course the United States and EU. While differences of views exist, these tend to involve more technical aspects of our frameworks. And while these technical details warrant full attention, our differences should not detract from the very real commitment by G-20 members to iron differences out, to the standards and principles that shape our frameworks, and to the reform approaches we are pursuing across a wide array of markets and institutions in order to strengthen global financial stability. That said, strengthened cooperation is needed on the cross-border implications of our national rule-making. Nonetheless, what is being accomplished represents a fundamental break with the past and it is being done with a unity of purpose and hard work by the official sector. I believe the system is stronger today and will continue to strengthen in the future as a result of our efforts.

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