



**David Wright**, deputy director-general of Internal Market and Services at the European Commission, talks about his role in resolving the financial crisis and the EC's aims for the long term

# In Brussels

**Résumé**

1977 – 1974 MA Politics, Philosophy and Economics (PPE): Worcester College, Oxford  
 1976 – 1977 work for MA Economics: Essex University  
 1975 – 1976 The Times newspaper, London

*Career at the European Commission*

1977 – 1982 Statistical Office of the European Communities  
 1982 – 1987 Directorate General for Energy  
 1987 – 1989 Directorate General for Industry and Internal Market Affairs  
 1989 – 1992 adviser, Forward Studies Unit (attached to President Delors)  
 1993 – 1995 member, cabinet of Sir Leon Brittan  
 1995 – 1999 adviser, cabinet of Jacques Santer, President of the European Commission  
 1999 – 2000 adviser, Forward Studies Unit  
 2000 – 2004 director of financial markets  
 2005 – 2007 director of financial services policy and financial markets  
 2007 – present deputy director-general, Directorate General Internal Market and Services, with overall co-ordination of financial services

**Q Can you tell us a little about your career to date and how you got into your current position?**

**A** I am currently the deputy director-general in the European Commission department that is responsible for the internal market. My job is to co-ordinate all the work on financial markets and issues, company law, accounting, auditing and so forth.

I have been in the commission for 31 years, and have had a number of different posts. I was in the think-tank of Jacques Delors at the end of the 1980s; I was in the cabinet of Leon Brittan in the mid-1990s; and was in the cabinet of the president of the Commission, Jacques Santer, in the second half of the 1990s.

Throughout that time I was working on trade matters, internal market, industry issues and particularly financial issues. Since 2000, I have been working basically on financial market issues, primarily on integrating the capital markets in Europe.

**Q What does your current role involve?**

**A** My current role is extremely varied. I have to work to the agenda of Commissioner Charlie McCreevy, who is the Commissioner responsible for the Internal Market and

Services, and his cabinet. Once the Commissioner has decided on a policy, we prepare all the proposals – whether they be legislative or non-legislative. A lot of our job is to listen to other regulators and market participants and to co-ordinate our work with these regulatory bodies.

We also have to appear and defend our proposals in the Council of Ministers in the European Parliament – who jointly decide on the Commission's proposals. When they are amended, we defend our proposals and sell our policies, which involves a lot of public speaking. We have to persuade people that what we are trying to do is good for the European economy and good for financial business and consumers in general.

**Q What do you see as the European Commission's role in the current financial crisis?**

**A** Some people do not realise that the biggest capital market in the world is Europe. It is, in fact, bigger than the US if you take all the member states together and all the different components and parts of the capital markets together – banking, securities, asset management, insurance and so forth.

We have a major interest here to ensure that the effects of the financial crisis are as minimal as possible. We have

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a major role in the European Commission to ensure there is proper competition between markets. So, for example, all the huge injections of capital and guarantees into the banking system have to be checked by the competition authority here to be sure that they are fair and in line with the rules set out by the Treaty.

Under the guidance of Commissioner McCreevy, we have also taken legislative initiatives; for example, the changes to accounting rules. Once the International Accounting Standards Board had made its changes, we had to introduce it to Community law quickly, giving banks the possibility to use more flexible approaches to fair value and the valuation of assets.

We have also made proposals to change the deposit guarantee schemes in Europe and have pushed to move the bar up higher. We have made proposals to strengthen capital requirements for banks, which we believe are necessary in the context of the current crisis.

We are bringing forward proposals to require the regulation of credit rating agencies (see box, P11). We have a major strategic, political and economic reason to act together to ensure we have good rules in place to mitigate the difficult circumstances that we are in now.

Of course, we want to co-ordinate this as much as we can at an international level as well – we always try to do that. But the challenges that we face are enormous, and the economic damage very severe. We have been acting under a great deal of pressure.

We get involved because, under the treaties, it is only the European Commission that can propose new laws – the European Parliament or European Council cannot. We have a role of propulsion and political initiative here.

**Q What is your department's priority in the near-term – including and excluding aspects of the financial crisis?**

**A** Our major priority is to contribute to stabilising the financial system, along with the central banks and regulatory and supervisory authorities of the 27 member states. The most important thing is to stabilise the situation, then carefully and in a calibrated way – respecting the better regulation principles – make reforms to the current financial system where there have been failures or weaknesses that need to be changed. For example, changing Basel rules, accounting rules, deposit guarantees and so forth. Commissioner McCreevy has taken an important initiative recently to press the market to develop, quickly, a single central counterparty to clear the complex derivative markets.

In the medium term, we want to strengthen our crisis management mechanisms: we are in a very fluid situation and we are evaluating matters on a continuous basis. At the same time, we are thinking towards the future and considering what is the right programme of work for next year – that has not been decided yet. The danger is that acting too quickly could result in mistakes and we want to avoid that.

**Q What is your biggest hurdle in achieving this?**

**A** It is always very difficult to get agreements from 27 member states and the European Parliament, while trying to take into account all the interests of the industry, consumers and investors. It is a very difficult balancing act.

But we have made good progress. I think we have made some important changes.

We are trying to get the incentives right in capital markets, this is very important. Whether we are thinking about credit rating agencies or securitisation products, or whether we are talking about the valuation of assets, executive pay or competition issues – you have to get the incentives right. These are all parts of the equation.

The role of the Commission is not to try to shape markets but to create the conditions for markets to function efficiently and competitively across borders. We do not privilege one sector over another. What we are trying to do is create an integrated capital market for everyone in Europe, where capital can flow freely around the union, and where people can buy products that suit them at the best price.

**Q How would you like to see the European Commission's role evolve over the long term?**

**A** Obviously, I want to see Europe become stronger economically and politically, and I want to see our markets develop and thrive. I want capital to be available to all that need it,



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and I want to see markets that are properly regulated.

We have seen with subprime what can happen if markets are badly regulated. It is important that people do not take on loans or debt that they cannot afford, and it is important that there are rules and safeguards to ensure that that does not happen.

This crisis has shown us that a problem that started in the US has rippled around the world, and therefore I want to see Europe in a leading role with good regulation being copied by other jurisdictions. We need to work closely with the US to shape and improve the global financial system.

As someone who has spent most of his working life in

the European Union, I want to see stronger integration and all the benefits of available capital for growing companies, innovative ventures and households.

Another thing that we have to ensure in the future is that all of us understand better what financial services are. I personally believe in making sure that finance is taught at schools from a young age.

After all, we teach students about Latin and cooking and gymnastics but not about how to manage money. If we can do that all together, and strengthen the so-called demand-side of our financial products, I think that our markets will function better in the medium to long term. ■

### Statement of intent

On October 17, Charlie McCreevy, European Commissioner for Internal Market and Services, issued the following statement on reviewing derivatives markets before the end of the year.

#### Time for regulators to get a better view of derivatives

The market for derivatives has grown to around \$600 trillion. It is a market little understood by those outside of it. In the current crisis, these complex and often opaque instruments have come under the spotlight. Given their size, the question most frequently being asked is, do they pose unnecessary risks to financial markets?

There are many types of derivatives. Some are fairly standardised and traded on exchanges. But the vast majority of derivatives are bespoke financial products traded off-exchange, i.e. over-the-counter (OTC) between two parties. Interest rate contracts account for almost two thirds of the total volume outstanding. But the derivative that has shown exponential growth in the last few years is Credit Default Swaps. These now account for around 10 per cent of all derivatives. Unlike most interest rate swaps, Credit Default Swaps can result in large payments having to be made in the event of a bankruptcy of a company.

Derivatives were originally devised as an added measure to help companies

manage certain risks; for example, to limit foreign exchange or interest rate risks in contracts. These derivatives are by and large OTC derivatives – namely they are not traded through a stock exchange or other multilateral trading platform. Instead, the contracts are drawn up between dealers and corporate and institutional clients, in principle, tailored specifically for each client's need. This gives rise to concerns that in the event of the failure of a significant party to honour its obligations, there could be serious knock-on effects for other financial players. In current fragile market conditions, such new tremors could cause major damage.

I am aware of the many reasons why more of these derivatives are not exchange traded. However, I am not convinced that more derivatives could not be standardised. This is one of the issues we need to look at in the time ahead. But there is a far more pressing need and that is to have a central clearing counterparty for these derivatives. This has been underlined by the collapse of Lehman which was a major counter party in the derivatives area. In addition, there was also considerable speculation on Lehman's default through the use of Credit Default Swaps which again increase the counterparty risk in regard to these instruments.

At \$600 trillion, the size of derivatives

markets today is such that we cannot let this OTC market continue without adequate counterparty clearing. This is particularly urgent for Credit Default Swaps. According to estimates of the Bank for International Settlements, the total notional amount outstanding for credit default swaps is almost \$60 trillion dollars, that is 10 per cent of the total derivatives market. No one is able to say how these swaps will unwind. Regulators have little sight of potential liabilities that could be building up for individual participants. The opaqueness of these products leads to nasty surprises when things go wrong.

The failure of the Icelandic banks is the latest in a line of credit defaults in recent weeks. Already at least one bank has had to write down a significant amount as a result of the failure. The potential knock-on effect to other players in the market is obvious. Regulators need to have a much better view of where the real risks in these instruments lie.

That is why I have decided to convene all the main players concerned to work through this. I would like to have by the end of this year concrete proposals as to how the risks from credit derivatives can be mitigated.

More generally, I also would like to have a systematic look at derivatives markets in the aftermath of the lessons learned from the current turmoil.