

## London's sway weakens as EU authorities gain power

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### Regulations

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New bodies to sort out

aftermath of financial crisis, says

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The City of London is losing its power to influence the torrent of financial rules and regulations flooding out of Brussels in the wake of the financial crisis.

The lobby strength of London's interest groups is starting to wane as the European Union's new supervisory authorities build up capacity in Paris and Frankfurt, as well as the UK capital.

Europe's new financial landscape is dominated by the European Banking Authority, based in London, the European Securities and Markets Authority, in Paris, and the European Insurance and Occupational Pensions Authority, in Frankfurt. Currently, staff levels at the authorities, which opened their doors in January, are in the 40s. Some could pass the 100-barrier by the middle of 2012.

In addition to their main supervisory duties, the trio can also take over the detailed follow-up drafting of legislative proposals. This comes at a time of a severe famine of highly qualified legislative drafters in the European Commission.

At present, the internal market directorate-general of the Commission, which contributes the vast majority of this type of legislation, makes do with teams of often only three or four key people per legislative package, admittedly with some outside help.

A Commission source says that team members may work for up to 70-80 hours a week on complex proposals for legislation.

Typical of the challenge is the recent project involving revisions to the Capital Requirements Directive (CRD 4) to implement Basel III rules on bank capital.

The text for the Directive runs to 154 pages. Its associated Regulation covers 700 pages, though much of this comes from Basel Committee codes. The Commission's initiative has to be sturdy enough to face fierce criticism from some of the EU's 8,200 banks, which are faced with having to raise an extra €460bn in capital by 2019.

From September, other legislation for financial markets includes work on Solvency II implementation measures, a revision of the Insurance Mediation Directive, and reform proposals to apply to credit rating agencies.

The qualifications needed to deal with this are rigorous. Ideally, drafters have to be experienced lawyers. Another qualification, in accountancy or the like, would fit in well. Being a good linguist is compulsory and knowledge of EU norms is also relevant.

The light-hearted German expression *Eierlegende Wollmilchsau* – the farmer's dream, meaning a multi-purpose animal that lays eggs, grows wool, can be milked, and will give bacon and pork like a pig – applies.

Jonathan Faull, director-general of the Commission's internal market says: "It is certainly true that we are struggling to find more of the right people in the relevant sector."

He points out that the pool for the highest talent is small, but the Commission cannot function properly without its share. Mr Faull argues that the quality of EU financial legislation has strategic implications for the whole EU economy, and often a spin-off beyond.

The obvious danger is that the drafting teams are forced to fall back, for research and so on, for inputs from a host of interested parties, including lobbies for fund managers. One senior executive of a leading Brussels-based financial pressure group casually greeted the idea of the shortage with a welcome. "That gives us a better chance to shape things to our needs," she explained.

However, pressure groups may have reason to fear the new authorities. According to Karel Lannoo, chief executive of the Brussels think-tank, the Centre for European Policy Studies, the authorities are ambitious, motivated to solve the aftermath of the crisis, have high status, and do have "teeth".

"Let's not forget, they can organise dawn raids," says Mr Lannoo, who notes that their powers will kick in when more staff have passed the six-month "acclimatisation" threshold. But already the City of London is alarmed that its muscle will wilt, says Mr Lannoo.

Some, such as Antony Gravili, official spokesman for administration in the Commission, blame "uncompetitive" salaries for having weakened the power of the public sector.

But Reemt Seibel, Esma's spokesman, says this is one of his authority's strengths. He says that while a junior might start on a "modest" €3,000 – €4,000 a month, Esma can be more flexible than the Commission, and could offer double that rate for a senior. "An investment banker would not apply, but many others in the financial sector would," he says.

Mr Seibel adds that in addition to inside staff, Esma has plenty of back-up resources, from standing committees, and from national regulators.

In London, the EBA's staff could reach 96 during 2014. It stresses that its professional mix is broad. It has lawyers but the two top posts are held by economists, and there are professionals with experience of the financial sector.

But should a shortage of lawyers matter that much anyway? Lawyers may be good with words, but financial regulators need to be good at numbers, as mathematicians, accountants and others are in the real world, according to Sharon Bowles, chair of the European Parliament's Economic and Monetary Affairs committee.

"When, too often, lawyers in the Commission do not have the wit to get it right first time, then we in the Parliament and Council have to do it, and that takes time," says Ms Bowles.

