**Comparative Analysis of Financial Regulation US-UK-EU**

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Abstract

The paper explores the level and direction of financial regulation in EU and gives insight in the steps of financial regulations through the paste decades. Financial markets and instruments are the most regulated industry due to explosion of the financial innovations in the last decades and due to increase of global financial integration. New financial instrument represents dynamic tool for increase whole economy in the time of expansion but also represent threat in the time of crises as we have fresh memories from the world crisis 2008. Financial regulation should be analysed from the global perspective, therefore author use comparative methodologies of financial regulation in EU, Great Britain and US to find the answer to the question regarding changes in global financial market. Main finding of the paper is the fact that, ironically, Covid-19 help financial integration in general and more specific, re-regulation in EU to became more dynamic, fluid (through EU financial instruments such as bonds) and applicable in each of EU member states.

Keywords: financial regulation, EU financial re-regulation, NextGeneration EU

1 Introduction

The financial industry is the most regulated industry this days, and yet this has not stopped the emergence of periodic crises and economic shocks. Are economic cycles followed by financial cycles a natural phenomenon of socio-economic systems or is human interference with regulations and laws necessary? History tells us that laisser faire, needs to be controlled and regulated to some extent. Goverment interference should exist, but to what extent? These and similar issues are of concern to today's economists. The subject of the research of financial de (regulation) in this paper includes an overview of the most important financial regulations in order to compare the EU financial regulations with the US and UK financial regulations as the leading countries when it comes to the financial industry. In addition, the aim of the paper is to check the state of financial regulations in the Covid-19 reality. The research questions of the paper start from the assumption that the financial industry is regulated and deregulated following business cycles of growth and decline. Each crisis is followed by tighter regulation of the financial industry that society 'forgets', followed by financial de-regulation largely due to pressure from strong and large banks and their interest representatives (lobbyists, etc.). The reason leading large banks to limit regulation lies in the desire to develop their business through the new financial products and consequently make a profit, while the desire of regulators to regulate the financial industry is driven by concern for the sustainability of the financial system in general. It is important it to recall the first (1929) and second (2008) world crises and the consequences they brought globally: the economic downturn, rising inflation, rising unemployment, bank failures, investment failures, companies turn off, rising interest rates, etc. In 2021, the world is facing with the typical black swan event – Covid-19 - “a very low-probability but very high-risk event.” (Taleb, 2010). In addition to the fight against Covid-19, the EU should also face Brexit. Both phenomena have accelerated the decision-making process and a certain degree of financial deregulation, which is reflected in the placement of European bonds in order to provide funds for recovery from Covid-19 known as 'recovery bonds' or 'Next Generation EU Bonds' (Gerich, 2020). Also, no one is pointing a finger at government debts that no one can stop given the economic slowdown due to the lockdown. For example, the Republic of Croatia continues its path towards the Eurozone, although it does not meet all the prescribed criteria it should have met (especially the government debt, which rose above the prescribed 60% of GDB), and in some normal conditions (old normality) this debt would be a serious obstacle to Croatia's entry into the Eurozone. And this is no time to worry, even slightly, about the level of government debt Krugman, 2020) The first chapter provides an overview of the main US financial regulatory doctrine. In the second chapter the development of financial regulation in the UK and then in the EU. The following is a chapter where a comparative analysis of those three financial markets is presented. This is followed by a chapter on the re-integration of the EU due to Covid-19 and a discussion and conclusion.

2 Financial regulation in US

US financial market was born like very live and wild monster that led the world to the first Great World Depression in 1929. Many companies and banks were shut down, unemployment raised together with inflation, US dollar dropped, stock market was in collapse. The financial regulation was urgently needed. The Glass-Steagall Act (GSA) was passed in 1933 and separated investment and commercial banking activities to avoid potential speculative risks of the financial institutions (mostly banks) that should protect the deposits of their clients. The Gramm-Leach-Bliley Act eliminated the Glass-Steagall Act's restrictions against affiliations between commercial and investment banks in 1999 due to pressure from financial industry.

The beginning of the 21st century was marked by the strong development of the IT industry, especially start-ups, the proliferation of new forms of financial products (financial Frankenstein’s such as CDO and Mortgage-Backed Securities MBS) and the strong stock market volatility. The combination of revived stock market activities misjudged financial packages and soft regulation led to the Second World Crisis in 2008 which was almost as devastating as the First World Crisis. Regulatory rearrangement was expected again. One of the first regulatory reactions was to start to reinstate a version of Glass–Steagall to isolate risky investment banking. After exceptionally complicated drafting and amendments, the Dodd–Frank Wall Street Reform and Consumer Protection Act passed into law in 2011 with the ‘Volcker Rule’ isolating risky proprietary trading from standard retail and commercial banking. Dodd-Frank and Volcker regulation was adopted during the president Obama's first term.

Under the Trump administration, since 2016 many aspects of Dodd–Frank have been watered down in a renewed round of deregulation. (Schenk, 2020) The Volcker Rule prohibits banks from engaging in certain non-traditional banking activities. More specifically, the Volcker Rule prohibits banks from engaging in two types of non-banking activities: (i) proprietary trading and (ii) investment in hedge funds and private equity funds, subject to a list of exemptions (Li et al, 2020). Innovations reflect a shift to macro-prudential supervision, that is, identifying systemic risks rather than just examining the balance sheets of individual banks, interest rates (sometimes even negative) and relatively low inflation created a highly unusual financial and economic environment that has privileged borrowers over savers. In response, corporate debt issues increased as did household debt, while equity markets soared. Unconventional monetary policy has also renewed academic attention on the impact of US monetary policy on global financial flows (Schenk, 2020). Financial regulation is unlikely to be one of the top priorities for President Biden. Covid-19, the economic recovery, healthcare, social justice, the climate transition, and troubled foreign relations will already more than occupy the new President’s attention. Wyman (2020)

3 Financial regulation in UK

First World Crisis of 2029 spilled over to the entire world, including the UK, as many European countries invested in the US stock market. British regulation followed American because the US has always been a role model to all other countries when it comes to financial innovation. After the banks almost failed in 2008 in the UK, the Government created the Vickers Commission (Lord John Vickers) and the Financial Services Act (Banking Reform) Act of 2013 required large banks to ring-fence their retail and commercial banking from investment banking by 2019 (Toussaint, 2015 and Chavaz and Elliott, 2020).

 Ring-fencing came into force on 1 January 2019. It requires the largest banking groups to separate core retail banking services from activities such as investment and international banking. Ring-fencing is the way of universal banking approach to find the way of reducing the risk without full separating of commercial banking activities from investment activities. The UK ring-fencing provisions permit retail banks to remain part of a banking group that also engages in investment banking activities. This means that an RFB (Ring-fencing bank) is likely to be controlled by a holding company that also controls an investment bank. UK policymakers have acknowledged that for this policy to succeed, the corporate governance regime applicable to the RFB must ensure that it is able to make decisions ‘independently’ of the parent company1. Ringe-fencing in the UK need to be research in the light of Brexit but it goes beyond the scope of this paper. UK’s withdrawal from the EU will inevitably create a financial hole in the EU budget. The Commission puts it at around 13 to 14 billion euros a year (Oettinger, 2018 cited by Becker, 2019)

4 Financial regulation in EU

Financial regulation has been developed over the years following the development of the European Union. It relied heavily on soft regulations in the sense of a recommendation (Basel 1,2,3) to address this issue in more detail in the last ten years through the adoption of the Financial Services Action Plan, See: http://ec.europa.eu/internal\_market/fi nances/actionplan/index\_en.htm. In this context, in November 2011, Commissioner Barnier announced the establishment of a High-Level Expert Group (HLEG) to assess the need for structural reform of the Union's banking sector and chaired by the Governor of the Central Bank of Finland, Erkki Liikanen. The report was published in October 2012, stating that bank restructuring is needed to complement existing reforms and recommending the mandatory separation of own-account trading and other high-risk trading activities into a separate legal entity within the banking group. Unbundling would be mandatory only for those banks in which the activities being unbundled make up a significant share of the bank's operations. On 3 July 2013, the European Parliament adopted by a large majority an own-initiative report entitled “Reforming the structure of the EU banking sector” welcoming structural reform measures at Union level to address banking problems. "Which are too large to allow their decay" (too big to fail idea) (see: https://www.europarl.europa.eu/RegData/etudes/BRIE/2014/542145/EPRS\_BRI(2014)542145\_REV1\_EN.pdf.

In the post-crisis environment (after the Second World Crisis 2008), governance of the EU financial sector has largely been characterised by centralisation of decision-making as well as by the proliferation of Union specific agencies in this sector. Agencies are a favourable organisational form that can be ‘ring-fenced’ from national political pressures, and committed to the common, European objectives (i.e., the Single Market project and financial integration), which is why recently their number has increased in the financial sector. Agency governance is the way forward in re-conceptualising EU’s mode of governance in the financial sector, and the main framework for its institutional re-design (Bajakić, Božina Beroš, 2017). The EU banking system is also a highly diversified eco-system made up by around 8000 banks that operate according to different business models and different ownership structures. However, over time the market evolved to produce a few very large, complex, interconnected banking groups that offer a diversified set of services such as commercial banking, traditional investment banking, asset and wealth management services, and capital market activities such as market making, brokerage services, securitisation and proprietary trading. The trend is today that big banks are getting bigger and joining financial conglomerates. In the EU, The German and French Banks are the most powerful financial institutions to oppose the EC's attempts to separate retail from investment banking through Liikanen report. (Schenk, 2020). In Brussels, there are around 1,500 representatives of the banks with a budget of 300 million EUR. Nevertheless, special attention is given to Systematically Important Financial Institutions (SIFIs) that attract a higher level of supervision by ECB.3

Furthermore, the last reform initiated by the Wise Men committee through the so-called Lamfalussy's report from 2019 that is the last report on the EC's public presentation of financial regulation. The Lamfalussy report (LR) was first conceived as a measure for the European securities market, and further brings us to the overall reform of the single financial territory. The measures mainly include easier and more transparent cooperation between the ECB and the central banks of the member states, more effective supervision. LR implies a comitology procedure, i.e. committee procedures through 4 levels. The committee procedure presupposes easier and more transparent operational decision-making regarding financial regulation.4 The Comitology structure, initially proposed for the securities industry and subsequently extended to the other financial sectors, is based on different types of Committee: Regulatory and Supervisory, with different tasks in the various levels (Gualandri and Grasso, 2006)

The Comitology structure follow 4 levels:

* At level 1 the European Parliament and Council adopt the basic laws proposed by the Commission, in the traditional co-decision procedure. As this procedure is usually complex and time-consuming, the Lamfalussy report recommends using it only for setting out framework principles.
* At level 2 the Commission can adopt, adapt and update technical implementing measures with the help of consultative bodies composed mainly of EU countries representatives. This allows the Council and Parliament to focus on the key political decisions, while technical implementing details can be worked out afterwards by the Commission.
* At level 3, committees of national supervisors are responsible for advising the Commission in the adoption of level 1 and 2 acts and for issuing guidelines on the implementation of the rules.
* At level 4 the report advocates a stronger role for the Commission in ensuring the correct enforcement of EU rules by national governments. 5

Following the financial crisis, the EU reformed its framework for financial supervision. It established a new European Systemic Risk Board (ESRB) for monitoring macro-prudential risks and transformed the level 3 Lamfalussy committees into independent authorities with enhanced powers. The purpose of recovery plan is to assure business continuity. Recovery measure is preventive activity to avoid resolution (Festić 2019). The three European supervisory authorities (ESAs) which were set up in this process are: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). Decentralization needs to be worked on where the power and influence of the most powerful banking giants (mostly from Germany and France) are evident. But what was more important, the EP’s assessment put forward an unexpected indictment; namely from all three supervisory authorities, ESMA was the one that scored the lowest regarding independence. The criticism was primarily directed to ESMA’s main executive bodies (i.e., the Management Board and the Board of Supervisors), and more concretely, to NRAs’ (National Competent Authorities) work therein, which was deemed far too ‘national’ in order to represent the ‘interests of the Union’ (Andenas and Deipenbrock, 2016). In the aftermath of the sovereign-debt crisis, when projects such as the Banking Union exacerbated differentiation tensions between Eurozone and non-Eurozone MS, ESAs’ independence consolidates democratic credentials of financial sector governance. However, Bajakić, Božina Beroš, (2017) demonstrated that the governance framework is the weakest link of ESMA’s independence, with its Board of Supervisors often criticised for favouring national interests and for regulatory capture. In this sense it is crucial that the Board of Supervisors is re-directed away from the national interests and more towards EU interests, while the budget financing structure needs to be carefully crafted in order to evade capture traps. Attempts have been made, among other things, to solve the problem of post-transition countries, which are mostly oriented towards commercial banks of foreign representative offices, the supply of financial instruments (primary products) is weak, and businesses and citizens are insufficiently financially literate and sufficiently protected through civic associations. While for the Eurozone members exists a European Stabilization Mechanism (ESM) from which funds banks can be recapitalized and which serves as a common protection mechanism, member states of banking union outside the Eurozone cannot rely on its use (Vujčić 2016). According Belke et al. (2016), due to treaty constraints, non-euro countries participating in the banking union will not be on equal footing with euro members’ area. Their analyses suggest non-euro countries to join banking union upon the euro adoption, as opt-ins are also excluded from the access to credible backstops.

5 Comparative analysis

A comparative analysis of the concepts of regulation and de-regulation in the EU, US and UK leads to the conclusion that the financial industry is swaying from regulation to deregulation uncertain to the point where it must or should stop. Any stronger financial regulation somewhat stifles economic activities because by prohibiting riskier investment behaviour but therefore ensures the stability of the financial system. On the other hand, the pressure towards deregulation is constant by financial market stakeholders and often the process of resistance is difficult. The role of lobbyists and large banks that have enough power and influence to stop the long-term efforts of institutions towards full regulation such as GSA type is unavoidable.

Table 1: Comparative overview of financial regulations

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| --- | --- | --- | --- | --- |
|  | YEAR | POINT | Activities | Comment |
| WORLD | 1929 | FIRST WORLD CRISIS(Black Swan event) | Speculative activities of the banks. | No regulation that led to chaos. Bank regulation urgently needed. |
| US | 1933 | GSA (Glass Steagal Act) |  First separation of investment and commercial banking activities to protect core banking activities and depositors from the 'riskier' trading activities. | Hard regulations led to recovery of US economy. |
| US | 1999 | GLBA (The Gramm-Leach-Bliley Act) | Speculative activities of the banks – investment and banking activities merged again. | Modernization means softer regulation. |
| WORLD | 2008 | SECOND WORLD CRISIS(Black Swan event) | Repercussions of speculative activities of the banks and other financial institutions. | Soft regulation again led to chaos. Bank regulation urgently needed. |
| US | 2010 | DODD FRANCK (Volcker Rule) | Second try of separation of investment and commercial banking activities to protect core banking activities and depositors from the 'riskier' trading activities. | Regulation adopted. TheVolcker approach is very detailed.  |
|  | 2011 |  ESFS (European System of Financial Supervision - ESMA, EIOPA and EBA) | EC way toward financial regulation and supervision. | More regulation in EU means more centralization.  |
| EU | 2012 | LIIKANEN REPORT  | EC decided to work on separation of investment and commercial banking activities to protect core banking activities and depositors from the 'riskier' trading activities. | More financial regulation is needed after the crisis in 2008. |
| UK | 2013 | VICKERS REPORT | UK way toward financial regulation and supervision toward ringe–fencing – soft separation different functions in the ring of bank. Established Banking Reform Act but rejected it due to concern regarding defining proprietary trading. | UK is the centre of world financial industry. Participants actually do not accept strong financial regulation. |
| EU | 2018 | LIIKANEN REPORT REJECTED BY EC | Universal banking EU Member states rejected separation of investment and commercial banking due to strong influence of finance industry. | 6 years of Liikanen group efforts were rejected. |
| EU | 2019 | LAMFALUSSY REPORT | Middle or third legislative proposal to include both approaches (strict distinction between commercial and investment activities and ringe fencing –soft separation through the functions). EU Member States' Regulators should take care of the risk.  | Levels of Lamfalussy report are not realized yet. Non-EU Member State adopted Volcker-style prohibition. EU approach is more pragmatic than Volcker rule. Details are given to EU Member state to implement.  |
| UK | 2019 | VICKERS REPORTED ACCPETED – RING FENCE  | Ringe –fencing accepted and started from 1.st of January 2019 – soft separation different functions in the ring of bank. | New financial regulation goes together with Brexit.Need to be more explored. |
| WORLD | 2020 | COVID-19 (Black Swan event) | COVID-19 spot regulation efforts in general.  | Regulation is on hold. |
| EU | 2021 | EU NEXT GENERATION | NextGeneration EU is a €750 billion temporary recovery instrument in the scope of Pandemic Emergency Purchase Programme (PEPP) to help repair the immediate economic and social damage brought about by the coronavirus pandemic because COVID-19 pandemic continues to have a major disruptive impact on the economic and financial environment. | Unexpected event such as Covid-19 accelerate financial integration of EU and release significant funds toward EU Member States.  |

Source: Author (2021)

It can be seen from Table 1 that financial regulation practically started after the 1st World Crisis with the GSA and is currently globally moving towards the ring-fence model as a kind of medium soft regulation. It can be concluded that every major world crisis (which were unexpected and had huge impact globally represent Black Swan event) have brought back to the stage the need to separate commercial banking from investment banking. Years of stable business have been followed by a ‘blow’ from big financial industry to once again allow banks to engage in investment business, and the reason lies in the simple craving for higher profits that are inevitably associated with higher risks. Every such period ended in a crisis. As Götz et al. (2017) claimed, banks were tempted to take excessive risks, which became evident when the levels of own funds proved far too low during the crises.

As far as the EU is concerned, it recommended Basel 1,2, and 3 as soft regulations and the members accepted those recommendations. In 2017, Basel 4 was adopted, which actually completes the recommendations of Basel 3 (A standardised floor, so that the capital requirement will always be at least 72.5% of the requirement under the Standardized approach; A simultaneous reduction in standardised risk weights for low risk mortgage loans; A higher leverage ratio for Global Systemically Important Banks (G-SIBs), with the increase equal to 50% of the risk adjusted capital ratio. Basel 4 should be implemented in 2023. It is only in the last 10 years that the EU has set about creating a stronger supranational regulatory framework. The first attempt was rejected, and the Liikanen report (which advocated firmer regulation of the GSA type) was prepared for 7 years for the EC to reject it in 2018 under the pretext that other models of regulation had been created in the meantime. In reality, France and Germany, as strong representatives of universal banking, have stopped the road to tighter regulation and paved the way for a ring-fencing model that more flexibly prescribes the separation of commercial and investment banking activities.

One of the fundamental differences between the US and EU member states have been the US preference for prohibition (or owner separation) as opposed to the EU Member States' preferences for ring –fencing (or functional separation/subsidiarisation). This difference means that the activities which US has prohibited cannot be carried out within a banking group at all whereas the activities on which the EU Member states have focused can be carried out within a distinct trading entity which is separate from the retail and commercial bank entity. The UK approach (Vickers) focused on a wider range of investment and wholesale banking. By prohibiting deposit-taking entities from 'dealing in investments as principal' it requires most of carried out by wholesale and investment banks to be carried out by a trading entity wholly separate from the retail bank. German and France follow ring-fencing approach. For example, French legislation provides that proprietary trading and unsecured financing to alternative investment funds ('AIF's) above a certain threshold (the speculative activities) must be carried out by a trading subsidiary separate from the retail banking entity rather similar to German legislation. EU legislation proposed Vickers rule (prohibition of proprietary trading, investment in AIFs) to every Eu Member State and requires national regulators to consider the possibility in relation to each individual deposit-taking bank depending on the risk profile. But non-EU Member State adopted Volcker-style prohibition yet (Mayer Brown, 2014). Today, the EC is proposing Lamfallussy Report (from 2019), which through its 4 levels represents the direction of the EU when it comes to financial regulation and tries to reconcile the elements of mutually opposite previously mentioned approaches to financial integration. It should be emphasized that EU Volcker-style refers only to the thirty largest banks in the EU (too big to fail). Finalization of the Banking Union concept, Capital Market Union and unique European Stability Mechanism and Single Resolution Fund - it fell somewhat into the background – due to Covid-19 which took attention throughout 2020, and the EC had to quickly adopt the recovery plan described in the next chapter. What awaits us? „Whereas the Banking Union aims to make the European banking system safer and to protect public money, the Capital Markets Union aims to increase the competitiveness and profitability of the EU finance industry (hence the support from the financial industry) by developing non-bank lending, or „shadow banking “in Europe (The Finance Watch Team, 2015). Furthermore, the negotiations between the USA and the EU on the Transatlantic Free Trade Area (TAFTA) include a chapter that seeks to increase financial deregulation. (Wallach, 2013).

6 Results and discussion

Financial regulation over the last 100 years has ranged from chaos to an order lurking in tighter regulation. The financial industry has continuously advocated for as little regulation as possible in order to make a profit by longing for a completely free market. Scientists and politicians are divided into those who lean towards tighter regulation (GSA), those who call for a middle ground if it is possible to maintain it, and those who advocate full deregulation (GLBA). There seem to be louder voices advocating for a ring-fencing model that may sound good in theory, and it is being pushed through by countries representing universal banking. This model, however, can hide many pitfalls because the real question is not whether we need regulation - but the question - will we stick to what it prescribes or will financial industry lobbyists again 'push water to their mill' in a way that looks on paper that the system adheres to the regulation, but it wouldn’t be the case because there is always a way to circumvent the regulation. Financial globalization requires a universal approach to the regulation of the banking industry given that capital has the property of moving where it is more favourable to it and therefore regulatory attempts in one country can be circumvented in another more regulatory relaxed country. Offshore oases are spread across the globe, and this will not be resolved without significant effort. As the financial system is becoming more complex, the increasing frequency of failures would seem to follow from chaos theory’s concept of deterministic chaos in dynamic systems, which recognizes that the more complex the system, the more likely it is that failures will occur as Schwarcz, 2012, point out. The American financial industry has gone the furthest in regulating the financial industry because it is also understandable given that financial innovations are largely an American invention. Stiglitz (2009) said that a well-designed regulatory system will be more competitive and more innovative—with more of the innovative effort directed at innovations which will enhance the productivity of firms and the well-being, including the economic security, of all citizens. Volcker-style regulation tries to adapt both the EU and the UK with certain modifications. The EU has found itself at a crossroads over the last 15 years - towards further reintegration or further integration. The first time in 2008 when the 1st World Crisis threatened the euro, the second time for the exit of GB from the EU, and the third time for Covid-19. Each time the EU came out even more ready to strengthen integration, and for Covid-19 released significant funds for recovery of all EU member states.

Voices are heard about the need to finish what EU started in the steps to full Banking Union, move forward with the reform of the European Stability Mechanism and to establish the common backstop to the Single Resolution Fund – which will enter into force at the beginning of next year – 2022 – earlier than expected. But We are still missing key elements: the ‘third pillar’ of the Banking Union, namely a European deposit insurance scheme (EDIS), as well as a credible solution for liquidity in resolution. These are essential to protect depositors across the whole of the Banking Union and safeguard financial stability. Without this third pillar, we have single supervision and single resolution, but fragmented national deposit guarantee schemes – undermining the whole project. It is important to do the regulation to the end and revive the Banking Union because EU/EEA are overbanked. In the term of cross-border financial integration, the EU/EEA system has the worst of both worlds: too integrated to be immune of contagion effect, but too fragmented to have the resilience that would come with genuine system-wide risk-sharing. As Kühnhardt (2011) cited by Eckert (2021) wrote of EU crises, a useful distinction can be made between crises “of” integration, which are potentially existential crises for the Union, and crises “in” integration, which relate to difficulties in specific policy areas.

The most urgent task also is to restore credibility to European AML (anti-money loundering) policy (Veron, 2019). As Krstić et al (2020) claimed members of society should be properly educated to build sustainable financial system and economy in general.

Still some effort in regulation and supervision are obvious. ECB become respected banking supervisor under the Single Supervisory Mechanism (SSM) and Regulation. Bank Recovery and Resolution Directive (BRRD), 2014/59/EU, meaning the end of using concept bail-out, according to which rescuing banks could initiate a huge amount of using public funds, and introduces concept bail-in according to witch the costs of recovering of the banks should be realised by unsecured creditors and special funds created by the successively payments of the banks. Because of the process, can be expected changes in behaving of deponents and in a business models of the banks in the future (Vujčić 2016). Still, there is a growing perception that, unless the legal regime for non-viable banks is significantly reformed, BRRD resolution and the SRB will play only a limited role. (ECA, 2017; Veron, 2019)

We started from the assumption in this paper that crises 'help' the regulation of the financial market, because after every world crisis, an attempt to regulate financial integration has been noticed. Another assumption from which we started is that Covid-19 as another specific form of crisis directly helps to regulate the financial market because it requires faster, more efficient and more transparent measures to help the economies of countries that have slowed down their economic activities due to lockdown.

The EU’s long-term budget, coupled with NextGeneration EU, the temporary instrument designed to boost the recovery, will be the largest stimulus package ever financed through the EU budget for special instruments in 2021–2027. A total of €1.8 trillion will help rebuild a post-Covid-19 Europe. It will be a greener, more digital and more resilient Europe as EC claimed. NextGeneration EU is a €750 billion temporary recovery instrument in the scope of Pandemic Emergency Purchase Programme (PEPP[[1]](#footnote-1)) to help repair the immediate economic and social damage brought about by the coronavirus pandemic because Covid-19 pandemic continues to have a major disruptive impact on the economic and financial environment. In the face of the major crisis, the integration of EU capital markets is crucial to enable a robust and uniform recovery across the economies. PEPP is ready to buy public (including Italy and Greece) and private sector debt across the eurozone (for more see. https://ec.europa.eu/info/strategy/recovery-plan-europe\_en).

7 Conclusion

More financial regulation is needed. That become obvious after every crisis and it is obvious now in the middle of the Covid-19 as one of the biggest crises of 21st century. EU realize that through the hard summer 2020's nights of negotiations between the EU Member states. Those negotiations gave birth of the Next Generation recovery instruments intendent to every EU Member State for recovery plan due to lock-down and economic slow-down. Voices are heard about the need to finish what EU started in the steps to full Banking Union, move forward with the reform of the European Stability Mechanism and to establish the common backstop to the Single Resolution Fund. EU develop simple ringe-fencing model of financial regulation through Lamfallusy report. UK has got their own problems with Brexit and Covid19 but ringe –fencing model of regulation is accepted. US still has got the most regulated financial industry through the Volcker-style ringe-fencing model but with the more details then UK's and EU's regulation. Further research should include impact of Brexit on UK Vickers-style of regulation.

Notes:

see: https://www.law.ox.ac.uk/business-law-blog/blog/2019/02/two-minds-governance-ring-fenced-banks

1. see:https://ec.europa.eu/info/business-economy-euro/banking-and-finance/regulatory-process-financial-services/expert-groups-comitology-and-other-committees\_hr#comitology-committees-working-on-financial-regulation). SIFIS are those entities whose distress or disorderly failure would cause significant disruption to the wider financial system and to economic activity because of their size, complexity and systemic interconnectedness (IMF, 2019)
2. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/regulatory-process-financial-services/expert-groups-comitology-and-other-committees\_hr#comitology-committees-working-on-financial-regulation
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1. Under the PEPP, the ECB and the national central banks (NCBs) will buy mostly government bonds until the end of 2020, or longer if necessary, and the programme closely follows the rules under which the current Public Sector Purchase Programme (vulgo: Quantitative Easing or QE) operates. The purchases will eventually follow the capital key of the NCBs by the end of the duration of the programme, but will be flexible over time and space. As a result, the PEPP enables the ECB and the NCBs to buy government bonds wherever and whenever necessary to ensure that interest rate spreads between the bonds of different member states do not undermine the functioning of monetary policy in the Eurozone (Grund, 2020). [↑](#footnote-ref-1)