A CONTINUED FOCUS ON FINANCIAL SERVICES INTEGRATION AS THE KEY DRIVER OF SUSTAINABLE GROWTH IN A POST-CRISIS EUROPE

Citi Viewpoints
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TABLE OF CONTENTS

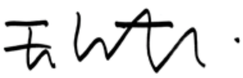
WELCOME

Citi has immense intellectual capital across our global network, and we are committed to harnessing this resource for our clients, business partners and the communities where we do business. Therefore, I am pleased to present a piece entitled **A Continued Focus on Financial Services Integration as the Key Driver of Sustainable Growth in a Post-Crisis Europe**.

In this paper, Citi's policy experts explore how financial services integration in the European Union could have a positive impact on economic growth within the region. A Single Market in Europe would create one of the largest domestic economies in the world, allowing the region to remain competitive in an increasingly globalised market.

Citi has been doing business in Europe for almost 200 years. We have a strong vested interest in the European financial system, and have been working in close coordination with other market participants to ensure we maintain a robust and competitive payment and clearing infrastructure in Europe and around the world. In this paper, we are offering our perspective on the long and eventful journey towards a Single Market in the European Union.

Knowledge shared is knowledge multiplied, and we hope that this paper will encourage dialogue and debate among governments, businesses and citizens today.



Francesco Vanni d'Archirafi
Chief Executive Officer
Global Transaction Services, Citi

FOREWORD

The evolution of Europe into an integrated financial services area has been gaining traction as an initiative for almost a decade, and has been discussed for much longer. This journey towards a Single Market in Europe has been marked with many milestones and, equally, has faced setbacks and challenges, not least of which was the global financial crisis.

Two years on, Europe is now focused on driving economic recovery amid continued market uncertainty. This paper explores the subjects surrounding the debate on the potential role financial services integration could play in supporting this revival and in achieving sustainable growth in the region.

In this report, we discuss how a Single Market in Europe could:

- Deliver key efficiencies and support overall growth and employment in the region.
- Offer Europe the opportunity to broaden and deepen its global leadership in the area of innovative standards adoption, particularly through initiatives such as the Single Euro Payments Area (SEPA).
- Reinvent the transaction banking environment that currently remains fragmented along national borders. It could help ease the transition into the digital world, enabling seamless and borderless payment functionality for citizens, governments and businesses. This could have a significant positive impact on e-commerce and competition across Europe.
- Deliver further resources and capacity for improved financial risk management, thus contributing to a robust financial market in Europe.

This paper is the result of the collaborative thinking of the business, government and regulatory experts across Citi, and is built on the insights we have gained as we interact with our clients and other market participants throughout Europe and all over the world.

I hope you find the report an interesting and insightful read.

Naveed Sultan
Head of Europe, Middle East and Africa
Global Transaction Services, Citi

PREFACE

In the context of our ongoing dialogue with key European institutions, such as the European Commission, Citi Global Transaction Services (GTS) has developed this paper to bring further thoughts and suggestions to the debate on the European Union (EU) strategy for integration, growth and innovation.

The harmonisation of the payments and securities settlement landscape in Europe is a vital part of the Single Market vision. At the same time, the creation of this pan-European borderless environment has the potential to release significant efficiencies that can be redeployed to create growth, jobs and innovation.

Transaction banking is one of the less visible areas of finance. It operates largely behind the scenes: familiar to those who work in it, or who directly use its services, but not to many others. Yet it is a crucial activity, central to the safe and efficient movement of commercial, financial and capital flows around the global financial system and touching the lives of many. Transaction banks provide three broad services: cash and liquidity management, trade services and finance, and securities and funds services. Their clients include public sector entities, large corporations and other financial institutions. Whether it is a local authority that intends to improve its cash management and overall financial interaction with citizens and suppliers, a multinational that wants to provide financing to its small and medium enterprise (SME) suppliers or a financial intermediary that needs innovative post-trade solutions to seize new opportunities and navigate alternative execution venues, all need the services of a transaction bank.

The systems and processes that are at the heart of transaction banking represent the backbone of the European financial services industry, and support many aspects of Europe's efforts to compete in the global economy. This – what we might call the "infrastructure" of the financial market – is essential to the market's functioning and needs to be safe, resilient, modern and efficient to ensure all transactions are executed smoothly. Unlike other types of infrastructure, such as roads or energy, the modernisation and harmonisation of the financial infrastructure is largely being undertaken and financed by the industry itself. While the vision of a borderless European market has been embraced by much of the financial industry, in practice, payment, and securities systems, processes and market practices are still a long way from achieving this goal. The inescapable reality is that true strategic alignment and partnership between the financial services industry and European legislators are the only way to bring about this transformation. To ensure that the market collectively delivers on this large-scale initiative, the European Commission's support and encouragement are vital.

The modernisation and harmonisation of these systems and infrastructures are the basis for unlocking efficiency gains and enabling future innovation. The potential benefits of payments integration in Europe under the Single Euro Payments Area (SEPA) project alone have an estimated value of around EUR123 billion.[1] In comparison, this would represent as much as 2.4 times the budget of the EU's 7th Framework Programme for Research and Technological Development (FP7, 2007-2013). When compared with Apple, one of the world's largest innovative companies, this represents as much as 123 times their annual expenditure in R&D in 2010.

But to effectively unlock these resources, the existing and sometimes antiquated and country-specific financial systems, infrastructures, rules and processes have to be replaced. It will not be enough to continue with a piecemeal approach of introducing new standards and rules while simultaneously maintaining legacy systems and processes. Europe needs the courage and resolve to move to a platform of Single Market Excellence. Achieving the future objective of creating a European Single Digital Economy, particularly with regards to e-commerce, pan-European securities trading, clearing and settlement, e-government, e-procurement and e-payments, first requires the realisation of a harmonised and efficient 21st-century underlying infrastructure. If this is not delivered, it would be tantamount to reinstalling physical borders and crossing points, with the psychological and physical impediments that this brings. The EU needs a safe, stable, modern and seamless system facilitating financial transactions — cash and securities movements — at pan-European level, rather than continuing the fragmentation with multiple domestic systems.

A harmonised and modernised payments market also facilitates the achievement of many social goals — a key benefit given that the social dimension of Single Market integration remains at the core of our European values. At Citi, we embrace the mandate of serving the larger economy by enabling governments, citizens, corporates and SMEs to benefit from efficient transaction banking solutions that bring cost savings and transparency, and that contribute to growth and employment.

Finally, the "hidden potential of the EU Single Market" has been estimated at around 2% to 4% of annual growth in Europe,[2] representing between EUR245 billion and 491 billion on the basis of EU-27 GDP of 2010.[3] To put this figure into perspective, 4% of annual EU growth would allow France to repay its entire national debt 1.5 times or allow Europe to finance 65% of the European Financial Stability Facility. So the Single Market has rightly been put at the forefront of the Europe 2020 strategy and the leadership of the financial industry with support from the European Commission will be critical to fulfil this potential.

In summary and to introduce this paper, we would like to make six high-level observations:

1. Europe has the opportunity to become the global leader for innovation and innovative standards adoption in the payment and securities settlement space if critical current Single Market initiatives, such as SEPA, are driven through to completion.
2. A modernised payment and securities settlement infrastructure will better equip the European economy to compete with emerging markets and continue to accelerate growth in trade with the rest of the world.
3. The European financial industry needs support from the European Commission, European Parliament and European Member States to deliver harmonised infrastructures for payments and securities settlement, a significant step towards achieving the Single Market.
4. Efficiency gains from this market harmonisation can be critically redeployed into the economy to create jobs, develop innovative solutions and contribute to the overall European economy.
5. Freeing-up resources through integration will also assist the European financial industry in further improving risk management procedures and systems, which will benefit the financial system overall.
6. Social inclusion and the delivery of a truly knowledge-based economy in Europe are enabled by more transparent, cost-effective and easy ways of facilitating

[1] CapGemini, SEPA: Potential Benefits at Stake (Commissioned by DG Markt EU Commission, 2008), p. 6. (The potential benefits are indicated as cumulative over a six-year horizon.)
[2] Michel Barnier, "Leading Post-Crisis Financial Reform", speech given at the Atlantic Council, Washington, on 29 October 2010.
[3] Data source: Eurostat.

INTRODUCTION

In the current environment, we are seeing a wide range of EU initiatives designed to overhaul the financial services industry post-crisis, and it is important to reflect on the continued relevance of a number of pre-crisis objectives and measures in the financial services arena in terms of their potential to position Europe at the forefront of economic growth and financial consolidation.

Starting with a high-level macroeconomic overview of the state of the EU economy and the challenges and imperatives ahead, this paper will illustrate how the pre- and post-crisis objectives of the EU — particularly those that concern the Single Market — are consistent with each other. In doing so, we will make recommendations for areas that we believe will accelerate Europe's recovery and maximise the potential for future growth. Key among these in a financial services context is the need to continue driving essential pre-crisis integration initiatives such as the overall integration of the payments and securities clearing and settlement landscape in Europe, while identifying and advancing new measures in the overall G20 context.

Besides the importance of G20 developments and the key role played by the EU, there is also a need for a renewed inward focus on regional EU integration at economic and political levels as the key to stimulating the necessary growth potential of the EU. A reinvigorated focus on the financial market integration agenda means Europe will be better able to deliver transparency and competition, which will subsequently free up resources. This creates a virtuous cycle of product and service innovation and makes the EU's economies more efficient, ultimately benefiting the European citizen by supporting growth of employment, high quality education and social security systems, as well as increased overall economic coherence. Freeing-up resources through integration will also assist the financial industry with the process of building up enhanced liquidity and capital buffers under the new Basel framework and help fund ongoing investment in risk management procedures and systems.

1. SETTING THE SCENE: A CHALLENGED EUROPE NEEDS TO REFOCUS

With more than 100 million households, the EU has become the largest integrated economic area in the world, representing 28% of world GDP in nominal terms in 2009.[4] A significant proportion of world-leading corporations is headquartered in the EU-27, benefiting from Single Market conditions that enable expansion across European markets and support overall competition. The EU's international trade, in particular exports to existing and future growth economies (the new "global growth generators": Bangladesh, China, Egypt, India, Indonesia, Iraq, Mongolia, Nigeria, Philippines, Sri Lanka and Vietnam,[5] as well as Russia and Brazil), significantly exceeds levels seen from the United States. The EU is also venturing further into mutually beneficial relationships with the Americas and Africa. Over the last decade, the EU per capita GDP growth has successfully kept pace with US figures.[6] Additionally, the EU scores highly on a number of key non-growth indicators, such as life expectancy, education, gender equality, physical security and sustainability.

Despite these positive indicators, the issue remains that EU-27 per capita GDP currently runs 30.5% below that of the US.[7] Similarly, productivity remains lower in the EU-27 compared to the US. Europe also has the additional demographic challenge of an ageing population.

One of the outcomes of the financial crisis has been a setback in the progress that EU Member States have been making towards public finance consolidation over the last 20 years. In addition, GDP growth dropped to –4% in 2009, its lowest level in 30 years.[8] With growth back to 1.8% in 2010, the EU is on a challenging path to regaining economic output levels going forward.[9] At the same time, industrial production and unemployment rates have gone back to levels last seen in the 1990s, resulting in a growth potential that is half of pre-crisis levels. Meanwhile, markets such as China and India are increasing their exports, while EU exports are falling, making it imperative to focus on the largely untapped services sector as the EU's future export growth pillar.

4 Data source: International Monetary Fund.
5 Citi Investment Research & Analysis: "Global Growth Generators: Moving beyond 'Emerging Markets' and 'BRIC'", Willem Buiter and Ebrahim Rahnbari, 21 February 2011.
6 Data source: International Monetary Fund and Eurostat; data reflects comparison of EU-15 with US between 1995 and 2008.
7 Data source: CIA World Factbook.
8 EU President J.M. Barroso, "Europe 2020", speech at the Informal Meeting of the EU Council on 11 February 2010.
9 Data source: Eurostat.

2.
TODAY'S FINANCIAL SERVICES LANDSCAPE: A RETURN TO THE PRIMACY OF DOMESTIC INTERESTS?

What can currently be seen in the market is a two-tiered reaction to the global financial turmoil of recent years. At the regulator level, the G20, together with the Financial Stability Board (FSB), have emerged as global coordinators to ensure the delivery of coherent policy responses worldwide. Increased global regulatory convergence has become a potentially feasible idea. At industry and individual country levels, however, the different markets and market players are still looking for a more tailor-made approach to regulation, supervision and overall fiscal and monetary measures. This is in light of the fact that economies and political landscapes remain unaligned across the globe and are likely to remain so going forward. At the same time, there is a looming challenge that jurisdictions around the world will have potentially divergent implementation and delivery timelines for G20 recommended measures, which will effectively allow regulatory and economic fragmentation to continue.

When focusing on Europe, the inherent challenge of grouping together a number of diverse countries remains. There are also worrying signs of an increasingly pronounced focus on national protective measures to ensure that past experiences, which have had an impact on citizens and governments, will never again be able to repeat themselves. While these reactions are understandable, they are ultimately not good for Europe, and we currently see signs of declining market integration and diminishing competition, the negative impact of which warrant further examination.

2.1
CONTRASTING PRE- AND POST-CRISIS PRIORITIES

Pre-crisis, the focus on European payments integration with the euro in place was a key priority. SEPA aimed for full harmonisation of payment rules across the region to allow efficient and transparent competition between banks and payment services providers on the one hand and clearing infrastructure and processing providers on the other. However, post-crisis we observe a renewed interest in domestic infrastructures and processes, justified by greater government control over the financial sector as governments seek to prevent future crises.

Pre-crisis, monetary union and the euro were flagship initiatives that needed further market deepening to achieve coherent monetary policy results and to support integration. Post-crisis, the tendency of many governments has been to focus on issues within their own borders, a trend that needs to be reversed if the EU is to continue on its path of convergence. Measures to create European crisis management rules and systems are critical to providing a solution to these challenges for the future.

2.2 THE NEED TO FOCUS ON INTRA-EU COHESION

All of these developments pose a serious threat to the European agenda, and, arguably, the limited degree of political and fiscal harmonisation in Europe currently challenges monetary union. In this regard, it is worth reminding ourselves of the US example, where political and economic integration was achieved as a first step towards consolidation, with the creation of a common currency taking place as a second phase only around 200 years ago. In contrast, the EU chose to launch the single currency and monetary union as a means to stimulate integration at fiscal and political levels. With this path adopted, it is even more vital that in the aftermath of the crisis, the EU focuses on taking intra-European cohesion measures with a view to embracing the challenge of economic and political integration at all levels in the longer run. While the EU should compliment itself for its leadership in G20 negotiations, the need for European harmonisation is more relevant than ever. The significant benefits that full Single Market integration can deliver to Europe's economy, citizens, businesses and governments — as much as EUR500 billion — is reason enough to move the multitude of integration initiatives ahead with full steam.[10] True economic integration, and hence intra-European cohesion, will depend on the Single Market being firmly in place.

[10] Michel Barnier, "Leading Post-Crisis Financial Reform", speech given at the Atlantic Council, Washington, on 29 October 2010. (Four per cent of EU-27 GDP of 2010 represents approximately EUR500 billion.)

3.
A PLAN OF ACTION

The crisis has demonstrated to regulators just how complex and intertwined financial markets across the globe really are. It has also shown that in an interconnected world it is not a viable option for Member States to operate their economic policies in isolation. The lack of regulation at a global level and the significant imbalance between the world's economies, combined with unequal distribution of benefits and risks, demand a consistent approach to effective supervision, regulation and harmonised standards for transparency and competition in the financial services arena. Returning to economic nationalism is not an option. Instead, increased globalisation at more levels of the economy is required to prevent risks of deepening economic fragmentation. What is now needed is more cooperation and coordination. This is particularly important for Europe.

The answer to tackling these challenges lies in the realisation that a continuation of key pre-crisis initiatives, on the supply and the demand sides, is a critical component of the recovery of the European economy. It should come as no surprise that the Single Market with all its dimensions — education, labour mobility, productivity, innovation, growth in services and competition — is at the heart of the solution. The European Commission's mandate in the field of financial markets was reinforced in 2009 with the objective of bringing new momentum to the Single Market while drawing appropriate lessons from the crisis. At the same time, the European Parliament is a strong advocate of the Single Market, emphasising the importance of Single Market legislation in protecting and preserving fundamental rights of EU citizens (e.g. security and privacy). Having worked on dismantling barriers to achieve more market integration for the last 60 years, the Single Market still remains too fragmented along national borders, hence retaining significant untapped potential, estimated at 2% to 4% of annual European growth.[11] The significant financial resources this frees up could be redeployed to create jobs and innovate and modernise the European market, increasing investment spend in this space by up to EUR500 billion. This is as much as 10 times the budget of the EU's 7th Framework Programme for Research and Technological Development (FP7, 2007-2013).[12] Considering that FP7 is a key tool for responding to Europe's needs in terms of jobs and competitiveness and for maintaining leadership in the global knowledge economy, such savings could deliver a fundamental boost to the European economy at large.

The Single Market, therefore, has been put at the forefront of the Europe 2020 strategy. Support through a harmonised financial infrastructure will be a critical component of fulfilling this potential. The "national-versus-cross-border" paradigm needs to be transformed into a "Europe-domestic" approach at multiple levels, bringing effective competition, transparency, cost savings and consequently overall risk reduction.

Action is now needed to accelerate the many measures relating to structural reforms, particularly those essential to supporting commerce at large, i.e. the payments, securities clearing and settlement landscapes.

This much-needed integration will give further stability to the euro and allow the EU to demonstrate the benefits of common currency and monetary union. In this respect, consistent implementation, enforcement and supervision of existing and new EU legislation need to be assured.

Therefore it is more important than ever for the EU to harness the financial industry's support to deliver this path of integration. Examples of initiatives that need to be pursued to their natural conclusion are discussed in the following sections.

[11] Michel Barnier, "Leading Post-Crisis Financial Reform", speech given at the Atlantic Council, Washington, on 29 October 2010.

[12] www.ec.europa.eu/research/fp7/understanding/fp7inbrief/what-is_en.html. Programme has a total budget of over EUR50 billion.

3.1
COMPLETING THE DELIVERY OF A SINGLE PAYMENTS AREA

A key project that needs to be seen through urgently is SEPA, which is currently in the hands of the European Parliament and Council, and which bears potential benefits of EUR123 billion according to a study commissioned by DG Internal Market and Services of the European Commission.[13] The pre-crisis vision was to complete the migration to a single set of pan-European schemes by the end of 2012, allowing for more competition in the payments industry and a consolidation of infrastructure processors down to a handful of scale players with lower unit costs, away from "national champions". However, the post-crisis reality is disappointing: adoption rates of SEPA credit transfers (13.9% in December 2010) and SEPA direct debits (0.08% in December 2010)[14] remain low. In addition, the market is seeing the emergence of new national SEPA processors (no consolidation); and implementation of SEPA standards is non-harmonised.

While the need for a regulatory push forward at EU level has been accepted and the European Commission has taken welcome action by publishing a proposal for a regulation, the vision of integration and harmonisation by closing down national payment schemes to give way to the common euro payment scheme has not been reflected in this proposal due to misplaced competition concerns. This collectively risks failure of the completion of this crucial Single Market initiative. At the same time, the benefit of centralised systems and the transparency these bring to the overall transaction process cannot be realised if markets remain national and fragmented in terms of schemes and systems. As a consequence, risk management cannot be optimised as different access channels, rules, agreements and processes will remain, and with these, so too will the complexity they bring. Furthermore, the cost savings for the financial industry that would result from a move to integration and harmonisation in the transaction space cannot be realised; hence new resources to improve risk management and invest in innovative solutions cannot be freed up.

Europe also needs to be aware of the fact that the progress of SEPA integration is being closely watched by other regions around the world. If Europe achieves its objectives, it will be the first region in the world to adopt modern, global and open standards for payments processing with ISO 20022 XML. This would create a benchmark for other regions in the world that are working on economic and monetary integration, be it on the African continent, in Asia or in the Americas. Courage and resolve are required here as the original vision of an integrated euro payments market was always the right one, and Europe, perceived as the best practice model for the adoption of innovative solutions, now needs to deliver.

[13] CapGemini, SEPA: Potential Benefits at Stake (Commissioned by DG Markt EU Commission, 2008), p. 6. (The potential benefits are indicated as cumulative over a six-year horizon.)
[14] Source for both statistics in brackets: The European Central Bank.

3.2
THE HARMONISATION OF THE POST-TRADING TRANSACTION CHAIN

A further key requirement is to accelerate the transformation of the post-trading environment in Europe. Over the last decade, the industry has been heavily engaged in driving towards harmonised infrastructures, which are ultimately designed to benefit end-users through lower costs and harmonised market practices. While several regulatory and practical measures have been developed, and others are in the pipeline, the end-to-end transaction chain is not yet fully harmonised. For example, the full removal of barriers to the integration of the post-trading market in Europe, which was initiated in 2001 with the identification of the Giovannini Barriers, has not been completed.

Looking at the value chain, the challenge for the industry and for regulators is to keep the initial objectives of creating a more efficient and low-cost environment for clients in focus when progressing current initiatives in the regulatory and operating environment, such as the ECB's Target2 for Securities initiative. Together with the rest of the industry, we continue to play a vital role in ensuring that these key objectives are not lost.

Furthermore, the interplay of the various regulatory developments in this space — such as the regulation of central counterparties, OTC derivatives and trade repositories; central securities depositories regulation; revised regulation of trading venues; and the legal framework for securities ownership — all need to be consistent with the objective of benefiting end-users.

Against this background, it is important that the risk of over-regulation is kept under control – particularly given the increasing level of overlap between the various measures in this space. At the same time, the proposals to enhance investor protection, currently reflected in a number of these regulatory initiatives, have to be kept at reasonable levels. Otherwise, the objective of reducing costs for end users, and stimulating business development across European markets will not be achieved.

Only the removal of cost inefficiencies in clearing and settlement, rather than the introduction of new costs, will bring about the required condition for the development of a large and efficient financial infrastructure in Europe. Due to the staged progress at the regulatory level, market participants are required to adjust to the evolving landscape step by step, and the delivery of benefits to clients from full harmonisation of rules and practices is still to come.

A fully harmonised, pan-European payment, clearing and settlement market would constitute the backbone of the integrated Single Market, and would be the most important piece of infrastructure needed to support growth in cross-border services and a single e-commerce market. None of these initiatives can be driven forward in isolation, as the payments and securities landscapes are inextricably linked in practice. Europe must have a seamless, efficient, non-discriminatory transaction network to achieve Single Market goals. Such a network would have benefits well beyond convenience, bringing with it more effective risk management, enhanced consumer protection and overall transparency, and enabling more effective anti-fraud measures. We actively support these market developments at the transaction level with the overarching imperative of ensuring client benefit at all levels, both in Europe and globally.

3.3
INNOVATION AND THE DIGITAL AGENDA

At a more general level, the third imperative that has been driven by the EU for a long time is the innovation agenda. In order to stimulate the European economy, innovation, including financial services innovation, is a key element of success. Innovation enables financial inclusion and supports competition to ultimately lead to the lowering of prices to the benefit of all users. In the absence of harmonised legal rules, standards and market practices across the financial services industry, the majority of innovation is likely to remain a small-scale phenomenon, confined to local markets. The European Commission's reinforced approach to innovation, in particular with the launch of the Digital Agenda and the Single Market Act (the latter scheduled for adoption by spring of this year), represents a critical step in the realisation of a truly knowledge-based and competitive European market place.

The approach taken in the Digital Agenda is essential to facilitating the transition of the European market to the 21st century. With the globalisation of information and the multitude of virtual delivery channels, the digital economy is already a reality. However, transaction solutions enabling seamless and borderless payment functionality are still not a broad market reality. The objective of providing easy and cheap access to e-based services of all kinds to citizens, governments and businesses can only be delivered in practice if the harmonised borderless payments market is in place. The reduction of cost, the improvement of security and overall convenience can be delivered at multiple levels — from e-government and e-commerce to electronic and mobile payments and real-time reporting. Without a smooth, secure and stable Europe-wide payment system in place however, the realisation of these significant benefits to the European economy cannot be realised.

4.
THE RELEVANCE OF INTEGRATION IN A BROADER CONTEXT

In summary, the integration and harmonisation of infrastructures and processes that support intra-European flows, combined with the associated cost reduction, will allow the financial services industry to ensure its investment in innovative products and services. Critically, this freeing-up of resources will also give financial institutions the additional capacity to improve internal risk management, thus contributing to a robust financial market. This key benefit is essential to the overall fulfilment of the new financial services regulatory framework of the G20. If financial institutions are able to improve efficiencies through integration and transparency, they will be better positioned to meet the new capital and liquidity regime, by building up strong countercyclical buffers and stable liquidity positions for both the short and the long term. More importantly, this will directly benefit the overall economy by releasing investment capacity to create growth, jobs and innovation.

As a note of caution, current developments in the liquidity regime aspects of the Basel III framework appear increasingly disconnected from the integration objective of the Single Market. We would recommend that these be closely monitored by the European Commission and by the newly formed European Banking Authority to ensure that the review of banking structures in relation to liquidity and lending rules does not dilute or hinder the current efficiency model of centralised transaction banking services, which was actually enabled by single monetary union.

CONCLUSION

Against the backdrop of the economic and structural challenges that Europe faces today, we see a compelling need for the further convergence of rules and practices with the goal of accelerating the creation of a competitive and harmonised Single Market that has been under development for the last 60 years.

The European Commission's strengthened support for the Single Market framework is absolutely essential. The Single Market Act, designed to bring back the Single Market integration agenda, is welcomed — as, without further integration, Europe may yet face the toughest socio-economic challenges in its history. Completing financial market integration would free up more resources to ensure better fiscal management and innovation, creating a virtuous circle. This would see the financial industry better equipped to redeploy resources to comply with the new capital and liquidity regime under the Basel III framework, while it accelerated investments in innovative services and increased risk management processes and techniques.

At the same time, any moves to return to national models of operating transaction banking services, in particular in light of the current approach of national regulators in the context of the Basel III liquidity regime, are diametrically opposed to the integration of the EU financial services industry and should be strongly resisted and countered.

While the Single Market Act represents a compelling vision, the European Commission cannot afford to lose sight of the critical need to push through a number of key initiatives that were started prior to the crisis, and that are even more vital in the current circumstances. It is by implementing a combination of pre- and post-crisis measures that the EU can tap into the "hidden potential of the EU Single Market" and help to address the currently unexploited opportunity gap, which is costing the EU some 2% to 4% of growth every year, something that Europe simply cannot afford in the current economic climate.

If the EU uses this opportunity to move towards greater harmonisation, it will emerge strengthened from the crisis. Harmonisation and consistency, including stronger supervisory alignment and enforcement across the EU, will trigger the economic benefits of convergence that can make Europe's economies more efficient and better able to cope with the challenges at hand. This would also be the precondition to enable the EU to close the productivity gap with other major economies such as the US.

Europe has the opportunity to pool its resources and speak with one voice. Only by acting together and with resolve can Europe seize this opportunity and avoid international marginalisation.

SPECIAL CONTRIBUTOR

Ruth Wandhöfer

Ruth Wandhöfer is Citi Global Transaction Services Head of Regulatory & Market Strategy in EMEA. Ruth is highly regarded across the European banking industry for her in-depth knowledge of the regulatory, market and competitive landscape and in particular is acknowledged as one of the authorities on SEPA (the Single Euro Payments Area) and the PSD (Payment Services Directive). She holds a number of influential positions across the European banking industry as well as memberships of EU Commission and European Central Bank Expert Groups.

Ruth has responsibility for engaging with the regulatory and market/standards environment on a wide range of topics in the transaction banking space, as well as driving and coordinating the business response within Citi GTS.

She recently published her first book on "EU Payments Integration", is a fellow lecturer of the Pallas LL.M Program in European Business Law and a member of the Editorial Board of the 'Journal of Payment Systems & Strategy'.

CONTRIBUTORS

Michael Collins

Michael Collins is Managing Director, European Government Affairs. Based in Brussels, Michael focuses on Citi's public policy priorities in the EU. Prior to joining Citi, he spent four years with the UK Foreign and Commonwealth Office as Financial Counsellor at the UK Permanent Representation to the EU in Brussels.

Penelope Naas

Penelope Naas serves as a Managing Director for European Government Affairs at Citi, based in Brussels. She works closely with institutions on a range of financial services, investment, and related issues. Penny established the Citi Brussels office in June 2007, and provides strategic information and advice to Citi's shareholders, clients and employees.

Satvinder Singh

Satvinder Singh is Managing Director and Direct Custody and Clearing Business Head for EMEA. Satvinder joined Citi in 2008 after 14 years with HSBC, where he held various roles in the DCC business across multiple geographies, including India and Hong Kong.

Global Transaction Services
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