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British Chamber Analyses Luxembourg's Financial Centre in terms of Banking Union

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On Thursday, the British Chamber of Commerce held a monthly luncheon at the Double Tree by Hilton in Luxembourg-Dommeldange on the topic of "Banking Union in the Eurozone: a positive impact on the Luxembourg financial centre", with guest speaker Pierre Gramegna, Luxembourg's Minister for Finance.

Around 130 members of the British Chamber attended the event which commenced with a cocktail sponsored by CLdN Coblefret Group, followed by a 2-course lunch.

The British Chamber's Chairman, John Johnston, introduced the speaker, charting his career from his studies in Paris to working at the Ministry of Foreign Affairs, then as Ambassador of Luxembourg to Japan, and on to hold the position of Director of the Luxembourg Chamber of Commerce in 2003. In early December last year, he was appointed Minister of Fiannce in the coalition government.

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Minister Gramegna started off by saying that the Chinese say that we live in interesting times, and acknowledged that these are indeed intersting times for the new government and for Luxembourg.

Before he referenced the banking union, he referred to the British Chamber and the UK. He acknowledged that the British Chamber is one of the most dynamic in the Grand Duchy and does a lot to bring the UK and the Grand Duchy closer together, finding common ground. As Minister of Finance, he would like to see this relationship grow. At the EU level over the past couple of years, there have been a number of challenges, including the euro itself. He said that many of the things that should have been done at/ before the start of the monetary union, were not done. The problem is that, during a period of growth, problems do not show up; however, they did when the economy fell.

He said that Europe needs to work together at 4 levels: political, economy (Europe is not competitive), fiscal and budget union, plus supervision of the financial sector. Regarding the third issue, the impact on Luxembourg is significant. Our medium-term objective is to have a +0.5% GDP result, with the 2015 budget set to achieve that - the planning over the next few weeks will aim to achieve that goal, by incorporating savings.

On the issue of bank supervision, he mentioned the Single Supervision Mechanism (SSM) to achieve common goals. Close to 200 banks are to be supervised by the European Central Bank, with others throughout the EU being supervised nationally. In Luxembourg, 6 banks in Luxembourg are classified as being at sysrtemic risk and will be supervised by the European Central Bank, in collaboration with the CSSF, Luxembourg's financial regulator.

The second pillar, the public guarantee system at a European level will ensure a similar system in all countries. The third pillar, the Single Resolution Mechanism (SRM), has a goal to to have a way of saving a bank in a harmonised way across eurozone countries, to avoid taxpayers footing the bill in case a bank experiences a specific problem. At the start, national system will coexist to support this mechnism, with the aim of growing to €60 billion, gradually, with new players also contributing to what will become a mutualised fund. He acknowledged that the SRM had been difficult to negotiate; one country has one vote, yet votes need to cover a certain percentage across the Eurozone.

He said that there have been various negative comments and criticism about the SRM, but he compared the issue to that of insurance - in the insurance industry there are some risks against which one cannot insure.

He also mentioned a fourth pillar, the European Stability Mechanism - €350 billion that have been paid or or guaranteed - established here in Luxembourg. It has not been agreed at a European level to which extent it can be used, but it is there.

On the positive side, he recognised the extent to which solutions have been found to issues which have not previously been solved. The European Central Bank will take over supervision, but Minister Gramegna has said

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he is awaitign to see what is happening in other Eurozone countries too. Luxembourg needs global and European rules, therefore he is pleased with the mechanisms that have been put in place.

He also confirmed that the new government will implement the issue of transparency from 2015, yet has pulled back from the discussion on the proposed transaction tax. Luxembourg wants to have a perspective on what the level playing field will be.

Minister Gramegna concluded that we must not neglect what has been happening in other international fora, e.g. the OECD, where more than one system are being discussed for the European Savings Directive. Luxembourg will favour one standard for everyone, to be applied and to be efficient. The (previous) government has changed the paridigm by agreeing to implement the directive, and the new government will stand by that decision - "there is no way back". He also described the issue of implementing freedome of information, meaning the lifting of bank secrecy, will be a "game changer".

Photo by Geoff Thompson (top): Minister Pierre Gramegna; (bottom): John Johnston, Chairman BCC

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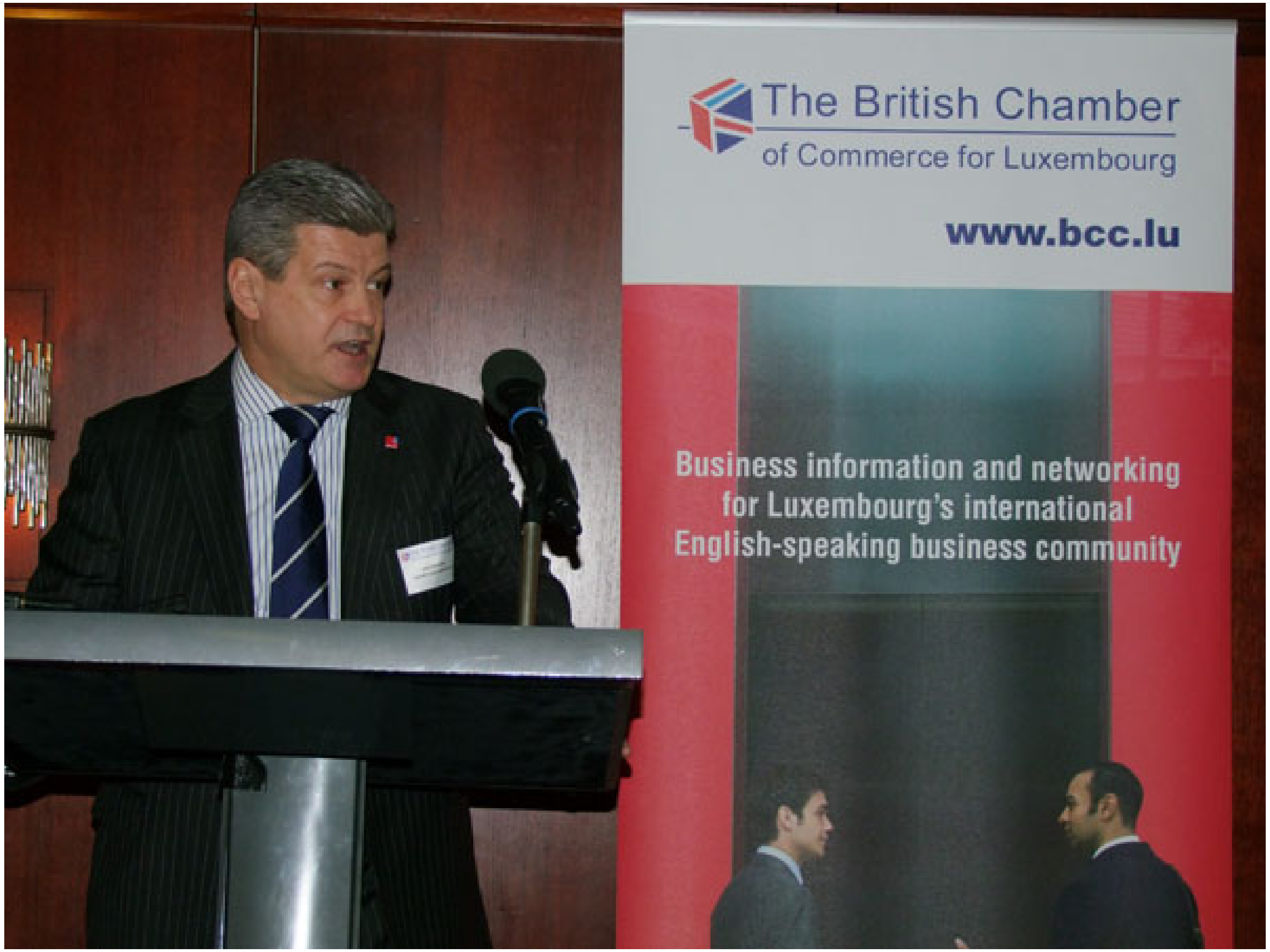

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