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The fourth panel on finance was chaired by Jean-Claude Trichet, who has some experience chairing things, and he very cleverly segmented the discussion into a series of more manageable topics. We started with a discussion on the progress of financial regulatory reform so far. There has in fact, much to the surprise of many, been movement, especially on the harmonisation of capital adequacy under the auspices of Basel III, some firmer rules and some convergence on the resolution of systemically important financial institutions, and there has even been some progress on macro-prudential regulation, although there is still a long way to go.

We noted that the progress on financial regulation and regulatory reform in many instances so far has been conceptual rather than operational, in the sense that the crucial details of how regulations will be implemented have still to be determined. The example was given of the Dodd-Frank Act, an extraordinarily complex piece of legislation whose effect can only be understood in its implementation, and is not at all clear how this will be done. The Volcker rule, which was adopted a few days ago by the five principal regulators, seems very clear on the rules of proprietary trading, but no one really knows how proprietary trading will be defined, how it will be applied to different financial institutions and what its impact will be on the financial system itself. Therefore, the devil is in the details, and the details in financial regulation are always in the implementation, which are still to be worked out.

It was also noted that financial regulatory reform has so far focused almost exclusively on national regulation, that is, on plugging the gaps in national supervision and regulation, which seemed to be rife in the recent crisis, with national regulators not carrying out their duties as we might have liked. This is an important task, but it does not address the crucial cross-border issues that international finance and a globalised financial system raise, and which remain very worrisome and raise the prospect of something beyond purely national regulatory reform. There may be a need for more global governance, whether that takes the form of substantive cooperation between national regulators or the creation of some form of supra-national institution to deal with cross-border externalities in the international financial system. Nothing has been done on that front, despite all agreeing that it is crucially important.

The discussion of this topic dealt, in the first instance, with the very difficult issue of the political economy of reform, with broad concern that financial institutions often exert undue influence on the process of regulatory reform and have an effect on the rules that are adopted, weakening the reforms and making them subject to the interest of the financial institutions rather than the broad economy as a whole.

Concern was also expressed by many Europeans that harmonisation could inflict damage on national economies due to the great diversity in the role of banking in the financial systems, so that a one-size-fits-all regulatory regime may harm the functioning of some of the national economies. That view was expressed in particular by some of those from the continent.

We then turned to a second issue, the European Banking Union; here substantial progress has been made, much more than many of us would have expected two or three years ago, towards a single supervisory authority, a single peak regulator of Eurozone banking, which will be the European Central Bank, which will have very broad powers. The ECB will have direct supervisory authority over 130-140 systemically important financial institutions, and it will have oversight over the regulation of other financial institutions in the Eurozone. There has been progress in this context towards a common resolution mechanism, which is politically a very difficult topic. There remain some very complex negotiations, but there has been substantial forward movement. Again, implementation will be crucial, and the implementation that probably matters most in this context is the ECB's ramping-up to its role as the single supervisory authority, in which it will first have to carry out a very substantial risk management assessment, then carry out an asset quality review, and finally carry out credible stress tests of the major banks in the system, all of which are still to come.

It was noted in discussion that the banking union is necessary primarily due to the failure to reach some sort of cooperation on fiscal policy, where banking union was seen as a second-best policy given the absence of a fiscal union. Questions were also raised about the role of non-Eurozone EU member states, meaning that the new regulatory authority will cover the soon-to-be 18 Eurozone member countries, but not the ten non-Eurozone EU member states. Given the very strong financial links across the EU, there is some question as to how exactly that will work in practice.

The discussion again emphasised the political difficulties of harmonisation among very different national financial systems. Some concern was also expressed about the way in which the regulators would consider sovereign debt, given that they are required to consider it a risk-less asset, which it certainly is not. That raises the importance of the risk assessment process, and particular the stress tests and the transparency of the regulatory authority as it goes about its task.

We then turned to our third topic, which concerned unconventional monetary measures. It was pointed out that these are of enormous size; taking the three principal central banks, the ECB, the Fed and the Bank of Japan, they amount to USD10 trillion, which is equal to a quarter or more of the GDP of each of those three areas. Most consider that this is a second-best policy measure, made necessary by the fact that other potentially useful macroeconomic policy measures were either politically or economically unavailable, such as the lack of agreement on fiscal policy. This made it difficult to respond to the crisis with other policies, so this almost exclusive reliance on extraordinary monetary measures is to some extent second-best.

There was some diversity of views on the assessment of the effects of these policies, but most agreed that they were positive, that they played a major role in reducing the impact of the crisis and preventing it from becoming more serious. However, there was also a recognition of costs, particularly the uncertainty about the future, the changed role of central banks and central banking, and the possible instability that might ensue with the exit from quantitative easing and other unconventional monetary measures. The exit strategy has not yet been fully elucidated, and some concern was also expressed that exit in whatever form it took could create unstable conditions if not handled well.

The overview in the last segment noted that international cooperation had reached a high point in the aftermath of the crisis with the expansion of the management group from the G7 or G8 to the G20. There is now a clearly greater role for the emerging markets in dealing with these global macroeconomic and financial problems, and there is more global recognition of the need for further cooperation.

I would summarise our discussions in the following way. There have been some very real achievements over the past five years in all areas, whether regulatory reform, the European banking union, or new forms of monetary policy and global cooperation. These achievements were obtained in the face of real political and other difficulties and often with costs in compromises, tradeoffs, and acceptances of second- and third-best policies. Nonetheless, there has been some advance on all these very important fronts; there is a long way to go, but the consensus was in favour of a guarded, cautious optimism. Overall, it was a dynamic, well-informed discussion. Almost the entire audience stayed the full three hours, and there was agreement that we could have gone on further had the panel done so.