European Union-Asia Multilateral Cooperation in Financial Services

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INTRODUCTION

The world order is gradually shifting from the Euro-Atlantic to the Asia-Pacific region.[1] This is also the case for financial services, where the G20 Asian countries, in particular China, India and Japan, increasingly play an important role at the global level. Moreover, Hong Kong and Singapore, along with other small Asian countries with large financial centres, are also playing an important role in international finance.

As emphasized by Valdis Dombrovskis (European Commission Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union) in a speech at the second annual EU-Asia Pacific forum on Financial Regulation in Hong Kong in December 2017: "[F]or the next few decades, Asia's economic growth is expected to lead the world. As your countries leap forward in economic and technological progress faster than anyone has before, your financial systems will evolve in tandem. At the same time, financial integration within the Asia Pacific region will keep advancing, just like it has done in the European Union's single market."[2]

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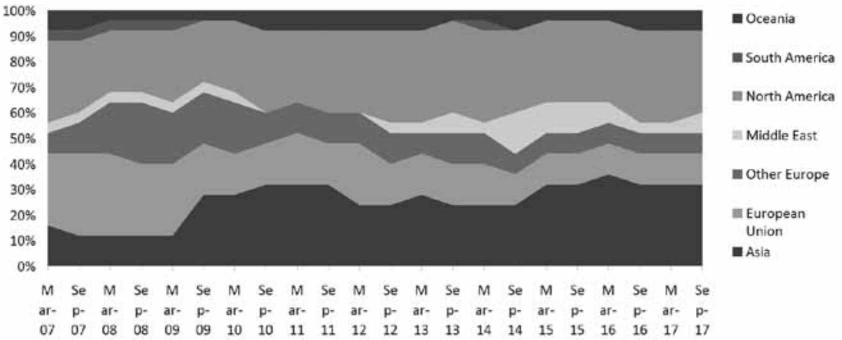
[1] S. Keukeleire and B. Hooijmaaijers, "The BRICS and other Emerging Power Alliances and Multilateral Organisations in the Asia-Pacific and the Global South: Challenges for the European Union and its View on Multilateralism," *Journal of Common Market Studies* 52 (3) (2014): 582-599; K. Mahbubani, *The New Asian Hemisphere. The irresistible shift of global power to the East* (New York: Public Affairs, 2008).

[2] V. Dombrovskis, "VP Dombrovskis Opening Keynote at the 2nd Annual EU—Asia Pacific Forum on Financial Regulation," Hong Kong, 1 December 2017, https://ec.europa.eu/commission/commissioners/2014-2019/dombrovskis/announcements/vp-dombrovskis-opening-keynote-2nd-annual-eu-asia-pacific-forum-financial-regulation_en.

The rising importance of Asia (Central, South, East and Southeast) in global finance is also reflected in their financial services rankings (Figure 1). For example, the number of Asian financial centres in the top 25 of the Global Financial Centres Index (GFCI) has doubled in the past decade from 4 in 2007 to 8 in 2017.[3] In contrast, during the same period, the number of European Union (EU) financial centres in the top 25 more than halved from 7 to just 3.[4] The change in the ranking[5] is primarily due to a difference in growth rates. The scores of the Asian financial centres grew substantially, while most of the EU financial centres remained stable or increased only a little bit.

Figure 1: Composition of top 25 global financial centres by region (2007-17).



Source: Authors' elaborations based on Z/Yen[6] (2007-17).

Otherwise, the sizes vary significantly between the Asian and EU financial sectors. The mature Asian financial sectors, such as China and Japan, have a similar size as the EU, roughly four times the size of their national GDPs. In turn, the emerging countries, such as Indonesia and India, have substantially

[3] The seven Asian financial centres included in the top 25 of the GFCI as of September 2017 include Hong Kong (3rd position), Singapore (4th), Tokyo (5th) and Osaka (21st) in Japan, Shanghai (6th), Beijing (10th) and Shenzhen (20th) in China, and Seoul in South Korea (22nd).

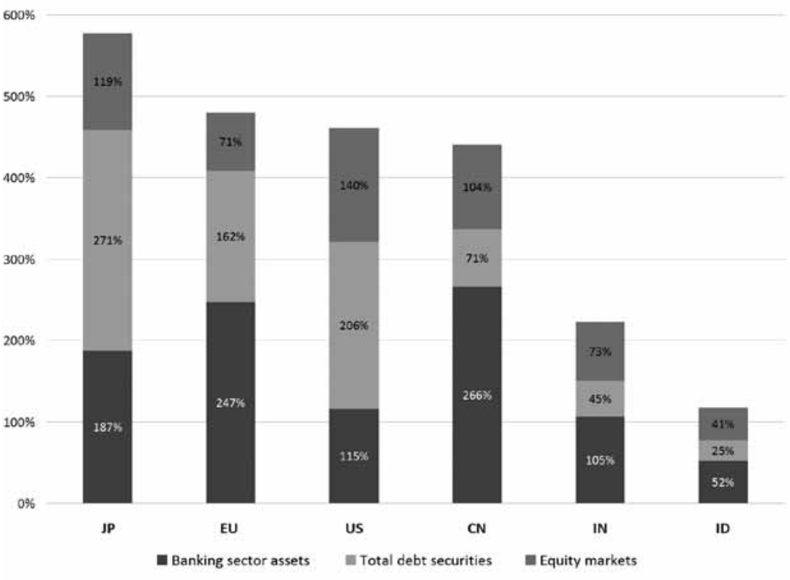
[4] The three EU financial centres included in the top 25 of the GFCI as of September 2017 include London in the United Kingdom (1st position), Frankfurt in Germany (11th) and Luxembourg (14th). Paris in France was listed 26th.

[5] The global financial centres index is based on a combination of instrumental variables such as infrastructure and business effectiveness indicators and perceptions of financial services experts.

[6] Z/Yen, "The Global Financial Centres Index" (London, United Kingdom, 2017).

smaller financial sectors, respectively about two- and one-times the size of their economies.

Figure 2: Size of the financial sector as share of GDP (end-2015).



Note: Data for banking sector assets (end 2014).

Sources: Amariei et al.[7] based on ECB, US Fed, BoJ, PBoC, RBI, BI, BIS, WFE, FESE, IMF and Eurostat.

The structures of the Asian and EU financial sectors are fairly similar. The main Asian and EU financial sectors are all bank dominated like most financial sectors around the globe. One of the notable exceptions is the United States (US) where the financial markets are more important for the financial intermediation. There are also some Asian countries with sizable debt markets, but these markets primarily finance domestic government debt. However, both the EU and many of the Asian countries would like to diversify their financial sectors with the development of their capital markets. In the EU, the aim is primarily to create an alternative to banks, whereas in Asia most

7 C. Amariei, W. P. De Groen and D. Valiante, "Improving the Investor Base for Local Currency Bond Markets in China, India and Indonesia" (Brussels: Centre for European Policy Studies, Brussels, 2017), https://www.ceps.eu/publications/improving-investor-base-local-currency-bond-markets-china-india-and-indonesia.

countries would like to develop their local currency bond markets to reduce the reliance on debt denominated in foreign currencies such as the US dollar.

This chapter discusses the EU-Asia financial services cooperation at both multilateral[8] and bilateral levels. The remainder of this chapter will discuss first multilateral cooperation within Asia and the EU. In the subsequent sections the cooperation at international and bilateral levels are assessed. The final section summarizes the main findings, draws some conclusions and provides some policy recommendations.

FINANCIAL SERVICES COOPERATION IN ASIA

The Asian view on multilateralism is primarily relations-oriented.[9] These initiatives in Asia have in common that the cooperation mostly consists of non-binding commitments, with protection of the respective national sovereignty being a key element.

For many years the Asian countries had limited attention for financial services related topics. This changed after the 1997-98 Asian financial crisis, which was a blow to many Asian economies and effectively obliged them to start discussing financial services issues in their regional dialogues[10].[11] Meanwhile various kinds of cooperation at the Asian level can be distinguished, including recently launched initiatives with a large role for China and other East Asian countries.

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8 Multilateralism can be defined as coordinated relations between three or more states or actors on the basis of shared principles of conduct or rules. See C. Bouchard and J. Peterson. "Conceptualising Multilateralism. Can We All Just Get Along," *Mercury E-paper* 1 (2011); and J. G. Ruggie, "Multilateralism: The Anatomy of an Institution," *International Organization* 46 (3) (1992): 561-98. See also Keukeleire and Hooijmaaijers, "BRICS and other Emerging Power Alliances and Multilateral Organisations in the Asia-Pacific and the Global South," for a discussion on the meaning of multilateralism.

9 Keukeleire and Hooijmaaijers, "BRICS and other Emerging Power Alliances and Multilateral Organisations in the Asia-Pacific and the Global South".

10 E. Saputro, *Indonesia and ASEAN Plus Three Financial Cooperation. Domestic Politics, Power Relations, and Regulatory Regionalism* (Singapore: Palgrave Macmillan, 2017).

11 Hamanaka challenges this common view that the trend toward Asian financial regionalism is a relatively new phenomenon, particularly emerging in response to the 1997-1998 Asian financial crisis in particular. See S. Hamanaka, "Asian Financial Cooperation in the 1990s: The Politics of Membership," *Journal of East Asian Studies* 11 (1) (2011): 75-103, 169.

Regional cooperation on financial services in Asia has been established based on the development of financial initiatives under the umbrella of three regional cooperation frameworks that are related: the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC) and the ASEAN Plus Three (APT).[12] However, APT is more effective than APEC, which is a rather broad and loose forum.[13] This is for instance reflected in the Chiang Mai Initiative (CMI) and Asian Bond Markets Initiative (ABMI).[14] APT is designed to realize financial integration via financial cooperation based on the CMI and can be seen as the future of financial integration in the ASEAN framework.[15]

Most of the cooperation in financial services, however, still takes place within the context of ASEAN. The ASEAN countries have agreed on a three-fold agenda towards monetary and financial integration in the region, including (i) liberalisation of the capital accounts, (ii) development of the capital markets, and, (iii) liberalisation of the financial services. The integration is a gradual process.

The ASEAN countries are currently negotiating an agreement on the free flow of services, which should at least be as far reaching as the six countries with whom ASEAN has a free trade agreement (FTA).[16] Additionally, since 2013, there have been negotiations between the ten ASEAN countries and its six FTA partner countries concerning a regional FTA—called Regional Comprehensive Economic Partnership (RCEP), which in 2018 should start its work towards the conclusions. The financial services section in the agreement is likely to build on the existing arrangements for services in the free

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12 APT includes the 10 ASEAN members Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam plus China, Japan and South Korea. This means that with the membership of China, Indonesia, Japan and South Korea, APT includes four G20 countries.

13 K. Verico, *The Future of the ASEAN Economic Integration* (London: Palgrave Macmillan, 2017).

14 W.W. Grimes, "The Rise of Financial Cooperation in Asia," in *The Oxford Handbook of the International Relations of Asia*, eds. Saadia Pekkanen, John Ravenhill and Rosemary Foot (Oxford: Oxford University Press, 2014), 285-305.

15 Verico, "Future of ASEAN Economic Integration".

16 ASEAN has free trade agreements with Australia, China, India, Japan, New Zealand and South Korea. The countries collectively are also referred to as Regional Comprehensive Economic Partnership (RCEP). See ASEAN, "Regional Cooperation in Finance," 2018, http://asean.org/asean-economic-community/asean-finance-ministers-meeting-afmm/overview/.

trade agreements, with additional dedicated rules for financial services and provisions to promote transparency and flexibility to address financial stability concerns.[17]

Table 1: Main ASEAN and APT financial services initiatives.

Initiative	Description	Region
ASEAN Capital Markets Forum (ACMF)	Forum for capital market regulators	ASEAN
ASEAN Banking Integration Framework (ABIF)	Framework to facilitate the banking integration process including the support of cooperation and financial stability arrangements as well as promote the improvement of the regulatory frameworks for banks	ASEAN
Payment and Settlement Systems (PSS)	Aims for the development of a more interconnected payment and settlement system	ASEAN
Financial Inclusion (FINC)	Promoting and fostering initiatives to advance financial inclusion	ASEAN
Working Committee for Capital Market Development (WCCMD)	Monitors initiatives and progress towards building capacity and laying infrastructure for development of ASEAN capital markets	ASEAN
ASEAN Insurance Cooperation	Development of insurance regulatory and supervisory frameworks as well as research and capacity building	ASEAN
Trading Link initiative	Single access point for ASEAN products to foreign investors	ASEAN
Asian Bond Markets Initiative (ABMI)	Develop local currency bond markets; facilitate regional bond market integration	APT
Chiang Mai Initiative Multilateralisation (CMIM)	Multilateral currency swap arrangement	APT
ASEAN+3 Macroeconomic Research Office (AMRO)	Regional macroeconomic surveillance unit of the CMIM	APT

Source: ASEAN, "Regional Cooperation in Finance".

Nevertheless, various issues and challenges remain in Asian financial services cooperation, including membership and leadership issues, the scope of finan-

[17] RCEP, "Joint Leaders' Statement on the Negotiations for the Regional Comprehensive Economic Partnership (RCEP)," Manila, 14 November 2017, http://asean.org/storage/2017/11/RCEP-Summit_Leaders-Joint-Statement-FINAL1.pdf.

cial cooperation and its enforcement.[18] To name a few challenges, there is the rivalry between China and Japan as well as the issue of how to deal with the US and its influence in the region.[19] When it comes to the scope of cooperation, various governments may have divergent preferences and interests on what this cooperation should include. Despite over two decades of increasing financial openness, the integration of the financial markets remains very limited, with relatively more integration in East Asia than in South Asia.[20]

FINANCIAL SERVICES COOPERATION IN THE EU

The cooperation between the EU member states is oriented on binding rules, which is reflected in formal institutions that are much stronger than the Asian regional cooperation frameworks.[21] The rule-oriented cooperation of the EU is reflected in the preference for powerful international regimes as the outcomes of multilateral cooperation.[22]

The 28 EU member states[23] have far-reaching cooperation covering many areas, including financial services. The cooperation is based on EU treaties that provide the foundation for the EU institutions, legislative process and establishment of EU agencies. The European Court of Justice (ECJ) is mandated to enforce correct implementation of the EU laws and if necessary sanction non-compliant actors, including member states.[24]

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18 Grimes, "Rise of Financial Cooperation in Asia".

19 Many countries in the region depend for a substantial part of their exports on the US and have their currencies still in one way or the other linked to the US dollar.

20 Grimes, "Rise of Financial Cooperation in Asia"; S. N. Katada, "In pursuit of stability: evolution of Asia's regional financial architecture," *The Pacific Review* 30 (6) (2017): 910-922.

21 Y. Qin, "Development of International Relations theory in China: progress through debates," *International Relations of the Asia Pacific 2011,* 11 (2) (2011): 231-257.

22 Keukeleire and Hooijmaaijers, "BRICS and other Emerging Power Alliances and Multilateral Organisations in the Asia-Pacific and the Global South".

23 The EU28 includes Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

24 D .Wright, "International Regulatory and Supervisory Challenges in a Fragmented World," in *International Regulatory Cooperation to Counter the Risks of Fragmentation*, ed. Swiss Finance Council (2018): 8-19.

In the aftermath of the 2007-09 global financial crisis and the 2010-12 Eurozone debt crisis there has been an overhaul of the financial legal and supervisory framework to make the EU financial system more robust and resilient. The legislative overhaul covered all the main financial institutions and activities, including banking, (re)insurance, pension funds, asset managers, investment funds, etc. The financial institutions authorised in one EU member state can via passporting also conduct activities in other member states without additional authorisation. Moreover, three dedicated supervisory authorities have been established. The European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) are responsible for the direct supervision of some financial services (credit rating agencies and trade repositories), promoting supervisory convergence and elaborating on primary legislation (technical standards and guidelines) in the EU.

Additionally, the 19 EU member states with the Euro as their currency[25] have undertaken even more far reaching measures related to banking. In particular, the Euro-countries have, in order to reduce the mutual dependence between banks and their sovereigns, largely centralised supervision and resolution as part of the Banking Union. Indeed, the European Central Bank (ECB) and the Single Resolution Board (SRB) are responsible for the supervision and resolution of the largest and cross-border banks in the Eurozone. The Banking Union might in the future be extended with a single deposit insurance, which has been proposed but has currently insufficient support at the political level to be adopted.

Despite the intense and far reaching collaboration at the EU level, there is disparity in the international ambitions of EU member states. This is, for example, reflected in the fact that not all the EU member states have joined the Eurozone as well as the announced departure of the United Kingdom (UK). This means that the EU will lose its main financial centre and the UK will be obligated to pursue a more independent international agenda. It will thus have to negotiate mutual recognition in bilateral trade agreements and, especially when this proves unsuccessful, to promote standard setting at the global level in the various international bodies.

[25] The Eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

INTERNATIONAL GOVERNANCE OF FINANCIAL SERVICES

The growing importance of Asian countries in the international financial markets is only partially reflected in their representation in international standard setting bodies. These bodies are often dominated by Euro-Atlantic representatives. But there are differences between the standard setters for the different financial sectors.

A large part of the current financial sector legislation of many Asian countries and all EU member states is based on international agreements established in the past decade. At the height of the global financial crisis, the leaders of the largest economies in the world united in the G20 (replacing the G8 as global coordinator) and agreed on a coordinated international approach to deal with the acute economic and financial challenges. The G20 at that time consisted of five Asian members (China, India, Indonesia, Japan and South Korea) and seven members from the EU (France, Germany, Italy, United Kingdom, European Commission and European Council [Netherlands and Spain]).

In the financial domain, the focus was on stabilising the financial sector to ensure lending to the real economy as well as strengthening of the legislative and supervisory framework. Internationally determined high standards should contribute to more stringent and consistent legislation and supervision.[26]

The Washington Action Plan set out nearly fifty actions to strengthen the regulation and supervision of financial services internationally. It gave the Financial Stability Board (FSB) (replacing the former Financial Stability Forum) the mandate to improve macro prudential supervision, coordinate information exchange between supervisors, prepare guidelines for supervisory colleges, support resolution planning for cross-border institutions, and review the work of the international standard setting bodies. Moreover, there was special attention for the Global systemically important banks (G-SIBs) for which supervisory colleges should be established and cross-border crisis management should be foreseen to address the too-big-to-fail institutions.[27]

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[26] G20, "London Summit—Leaders' Statement," London, 2 April 2009, https://www.imf.org/external/np/sec/pr/2009/pdf/g20_040209.pdf.

[27] G20, "Declaration on Strengthening the Financial System," London, 2 April 2009, http://www.g20.utoronto.ca/2009/2009ifi.pdf.

Table 2: Key standards and codes for sound financial systems.

Area	Standard	Issuing international body[28]
Macroeconomic Policy and Data Transparency		
Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF
Fiscal policy transparency	Code of Good Practices on Fiscal Transparency	IMF
Data dissemination	Special Data Dissemination Standard/	IMF
	General Data Dissemination System	IMF
Financial Regulation and Supervision		
Banking supervision	Core Principles for Effective Banking Supervision	BCBS
Securities regulation	Objectives and Principles of Securities Regulation	IOSCO
Insurance supervision	Insurance Core Principles	IAIS
Institutional and Market Infrastructure		
Crisis resolution and deposit insurance	Core Principles for Effective Deposit Insurance Systems*	IADI
Insolvency	Insolvency and Creditor Rights	World Bank
Corporate governance	Principles of Corporate Governance	OECD
Accounting and Auditing	International Financial Reporting Standards (IFRS)	IASB
	International Standards on Auditing (ISA)	IAASB
Payment, clearing and settlement	Principles for Financial Market Infrastructures	CPMI/IOSCO
Market integrity	FATF Recommendations on Combating Money Laundering and the Financing of Terrorism & Proliferation	FATF

Note: *It is recommended to also include one or more standards on resolution regimes.
Source: FSB.[29]

[28] IMF: International Monetary Fund; BCBS: Basel Committee on Banking Supervision; IOSCO: International Organization of Securities Commissions; IAIS: International Association of Insurance Supervisors; IADI: International Association of Deposit Insurers; OECD: Organisation for Economic Co-operation and Development; IASB: International Accounting Standards Board; IAASB: International Auditing and Assurance Standards Board; CPMI: Committee on Payments and Market Infrastructures (CPMI); FATF: Financial Action Task Force.

[29] FSB, "Key Standards for Sound Financial Systems," Basel, 2017, http://www.fsb.org/what-we-do/about-the-compendium-of-standards/key_standards/.

Members of the FSB agreed to implement the main international standards and codes (Table 2) as well as be subject to peer reviews. The International Monetary Fund (IMF) and World Bank had initiated the work on these standards and codes already in the 1990s, but they were substantially revised and extended to address the gaps and insufficiencies identified during the global financial crisis.[30] Most of the international standards and codes are widely adopted and implemented. There are many different international organisations involved in the standard setting and the design of the codes, which all have different members and governance systems.

Table 3: Jurisdictions represented in selected international bodies (2018).

Area	**G20**	**FSB**	**BCBS**	**IOSCO**	**IAIS**	**CPMI**
Asia	5	7	7	20	22	6
European Union	5	7	10	28	28	8
Other Europe	1	2	2	17	18	2
Africa	1	1	1	17	25	1
Middle East	2	2	2	11	12	2
North America	2	2	2	3	3	2
South America	3	3	3	21	24	2
Oceania	1	1	1	2	4	1
Other (international institutions)	0	0	0	0	6	0
Total	**20**	**25**	**28**	**119**	**142**	**24**

Note: The table shows the number of unique jurisdictions represented in the organisation as well as multilateral organisations such as the European Union. Indeed, when a country has more than one supervisor represented it counts as one.

Source: Authors' elaborations based on G20, FSB, BIS, IAIS and IOSCO (2018).

Despite the increased presence of Asian countries in the global financial markets, the EU and its member states have the same or more representatives in the international standard setting bodies (Table 3). The membership of most international bodies is unweighted, i.e., every country[31] has the same voting power. In most of the international bodies, the EU is represented by both several or all member states and one or more EU-level representatives. However, the EU and its member states often do not speak with one voice in these

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[30] IMF, "Standards and Codes: The Role of the IMF," Washington, 2017, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/25/Standards-and-Codes.

[31] In most of the sectoral bodies countries are represented by their financial authorities instead of the governments (BCBS, IAIS, IOSCO, etc.).

bodies.[32] The membership of some of the organisations, such as the G20, FSB and BCBS, is restricted to the main economies or financial markets, whereas others such as IAIS and IOSCO are in principle open to all countries. In the international bodies with restricted membership, the EU and Asia often, combined, represent half or more of the representatives, while in the other bodies with a more open membership—where more developing countries are represented—they account only for a large minority of the members.

Membership of the various international bodies is important to be able to contribute to the standards and codes. Most of the standards and codes agreed in the international bodies are not just applied in the member jurisdictions. For example, the bank capital rules agreed in the Basel Committee are applied in more than 80 non-member jurisdictions, including the large majority of the Asian non-member jurisdictions (Table 4). In most of the cases the standards and codes are set according to how people involved in the standard setting decided based on a "sense of the room", which is in most cases quite close to unanimity.[33] This, on the one hand, ensures that the not legally binding standards and codes are widely adopted. On the other hand, most of the standards and codes are agreed at a fairly high level, leaving in many cases quite some room for discretion to the national authority responsible for the implementation. Moreover, the enforcement mechanisms are also relatively weak with regard to peer-review mechanisms. Enforcement mechanisms are important because of the discretion allowed and the temptation of national regulators to defend national interests.[34]

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[32] Wright, "International Regulatory and Supervisory Challenges in a Fragmented World".

[33] Wright, "International Regulatory and Supervisory Challenges in a Fragmented World".

[34] A-M. Slaughter, *A New World Order* (Princeton: Princeton University Press, 2009).

Table 4: Jurisdictions adopting Basel III bank capital rules (2015).

Area	**BCBS members**	**Non-BCBS members**	
	Adopting*	**Adopting***	**Not-adopting****
Asia	7	13	2
European Union	9 (+19***)	0	0
Other Europe	2	15	2
Africa	1	19	6
Middle East	2	8	0
North America	2	1	0
South America	3	22	5
Oceania	1	3	1
Total	**27 (+19***)**	**81**	**16**

Notes: *Jurisdictions are considered as adopting Basel III when they have indicated in 2015 that they are in the process of adopting or have actually adopted at least part of Basel III.

**Not-adopting considers the sixteen countries that were included in the Financial Stability Institute (FSI) survey but indicated that they were not in the process of adopting at least part of Basel III.

***The EU is representing all the 28 EU member states in the Basel Committee (BCBS). Additionally, there are 9 EU member states that are also individual member of BCBS.

Source: Authors' elaborations based on FSI.[35]

EU-ASIA BILATERAL RELATIONS

Countries can agree bilaterally to go beyond the standards and codes agreed at the international level. The EU and individual Asian countries cooperate in the field of financial services in at least three additional forms: (i) countries can agree that financial service providers are allowed to conduct cross-border activities without prior authorisation of the host supervisor, (ii) coordinate actions in supervision and resolution of financial institutions, and (iii) technical assistance and regulatory dialogues to support the adoption of international standards and codes.

The EU allows mutual access of financial institutions and services through equivalence. In most cases it considers prudential legislation, but in some cases it also concerns activities such as investment firms operating under Markets in Financial Instruments Directive II (MiFIDII). A system is considered equivalent when the outcomes of the rules and supervision are the same and there is reciprocity. The assessment covers, besides the effectiveness of the legislation

[35] FSI, "FSI Survey: Basel II, 2.5 and III Implementation," Basel, 2015, https://www.bis.org/fsi/fsiop2015.pdf.

and supervision, potential market size, interconnectedness and external policies, and, in some cases, also anti-money laundering regimes, compliance with the OECD tax standards and difficulties for establishment of EU institutions in the third country (i.e., country not part of the EU or European economic area). The European Commission conducts the equivalence assessment at the demand of the third country. The decision on equivalence is, however, entirely up to the European Commission, which can also amend or repeal the decision at any moment.[36] The European Commission itself has indicated that there is a need for more coherence in the equivalence decisions.[37]

Only part of the EU financial service legislation has provisions for third-country financial institutions to conduct activities cross-border without authorization (like passporting) or at least less stringent requirements (exemptions) in the host country. In fact, in 15 of the 40 pieces of legislation adopted after the crisis there are equivalence provisions. As of January 2018, the European Commission has adopted 276 equivalence decisions with 35 countries, of which 88 decisions were with 10 Asian countries. Most of the Asian equivalence findings are with Japan and Singapore. The other equivalence decisions involve other large Asian economies and financial centres: China, Hong Kong, India, Indonesia, Malaysia, South Korea, Taiwan, and Thailand. The decisions cover mainly banks, credit rating agencies, central counterparties, accounting standards as well as some exemptions for central banks and public bodies under various legislations.[38]

In order to conduct activities in other countries, the EU and Asian financial institutions not covered by the equivalence decisions require the authorisation of the local authorities. Asian financial institutions can freely acquire authorisation in EU member states. After receiving authorisation in a single EU member state the financial institution can also provide services in other member states. In contrast, the EU financial institutions need an

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[36] For example, when the third-country system no longer meets the conditions or when the decision is time-bound.

[37] European Commission, "EU equivalence decisions in financial services policy: an assessment. Commission Staff Working Document," Brussels, 27 February 2017, SWD(2017) 102 final (2017), https://ec.europa.eu/info/sites/info/files/eu-equivalence-decisions-assessment-27022017_en.pdf, 20017.

[38] European Commission, "Equivalence/Adequacy Decisions taken by the European Commission as of 09/01/2018," 2018, https://ec.europa.eu/info/sites/info/files/overview-table-equivalence-decisions_en.pdf.

authorisation in every single Asian country. Moreover, in some of the Asian countries foreign financial institutions are not allowed to fully control their subsidiaries. For example, in China, India, Indonesia, Malaysia and the Philippines, foreign banks were till recently or are still only allowed to own part of domestic banks.[39]

Table 5: Global Systemically Important Financial Institutions (G-SIFIs, Sept-2017).

	Banks (G-SIBs)	Insurers (G-SIIs)	Total	
	NR	NR	NR	%
Asia	**7**	**1**	**8**	**21%**
China	4	1	5	13%
Japan	3	0	3	8%
Europe	**15**	**5**	**20**	**51%**
European Union	13	5	18	46%
of which United Kingdom	5	2	7	18%
Switzerland	2	0	2	5%
North America	**8**	**3**	**11**	**28%**
Canada	1	0	1	3%
United States	7	3	10	26%
Total	30	9	39	100%

Source: Authors' elaborations based on FSB.[40]

There are many financial institutions that operate in multiple countries. These institutions, such as banks, may constitute a potential risk for financial stability in different countries. In order to limit the risk there is a need for international coordination between supervisors and resolution authorities. Supervisory colleges and crisis management groups (G-SIFIs) bring together the competent authorities in the home and key host countries to exchange information as well as prepare and coordinate their actions. The majority of the global systemically important financial institutions are based in the EU (18 banks and insurers) and Asia (8 banks and insurers) (Table 5). The colleges and crisis management groups are supported with cross-border cooperation

[39] M. Cihak, A. Demirguc-Kunt, M. S. Martinez Peria, and A. Mohseni-Cheraghlou, "Bank regulation and supervision around the world: a crisis update," Washington: World Bank Policy Research Working Paper 6286 (2012), http://go.worldbank.org/SNUSW978P0.

[40] FSB, "2016 list of global systemically important insurers (G-SIIs)" (Basel, 2016), http://www.fsb.org/wp-content/uploads/2016-list-of-global-systemically-important-insurers-G-SIIs.pdf.; FSB, "2017 list of global systemically important banks (G-SIBs)," Basel, 2017, http://www.fsb.org/wp-content/uploads/P211117-1.pdf.

agreements and Memoranda of Understanding (MoUs). The MoUs between authorities can also be supportive to the equivalence decisions. The agreements between supervisory and resolution authorities in practice, however, often provide insufficient certainty to avoid authorities acting in their own interest in crisis situations.[41]

The EU invests extensively in its bilateral relations, which includes regulatory dialogues on financial regulation with important economic partners, including Asian G20 economies (Japan, China and India). The European Commission as well as the governments of the individual EU member states hold regular high-level meetings on financial services regulation to discuss various issues, including on international standards, the coordination of the G20 roadmap implementation and cross-border provisioning of financial services.[42] These dialogues often take place at the political level, sometimes in the context of broader free trade agreement negotiations (e.g., Thailand, Indonesia, Korea, Malaysia, the Philippines and Singapore), but also between financial authorities. For example, the ECB has signed MoUs with the central banks of China and India in which policy dialogues and joint work programmes are foreseen.

Since 2016, regulators from the EU and the Asia-Pacific region hold an annual EU-Asia Pacific Forum on Financial Regulation. As was mentioned by Commissioner Dombrovskis:[43] "With this forum, we want to work with you towards mutual recognition of rules and a shared vision for growth and financial integration." For those third-country jurisdictions holding regulatory dialogues with the EU such as Japan, China and Southeast Asian countries, these fora offer an opportunity to discuss difficulties and further enhance understanding.[44]

Moreover, there is a role for the EU development policies, which lumped together with those of the individual EU member states also play an important role in supporting developing and emerging countries with the development of their local financial market through technical assistance.[45]

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[41] W. P. De Groen, "The different legal and operational structures of banking groups in the euro area and their impact on banks' resolvability" (Brussels: European Parliament, 2016), http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/587378/IPOL_IDA%282016%29587378_EN.pdf.

[42] Wright, "International Regulatory and Supervisory Challenges in a Fragmented World".

[43] V. Dombrovskis, "VP Dombrovskis Opening Keynote".

[44] European Commission, "EU equivalence decisions in financial services policy".

[45] Wright, "International Regulatory and Supervisory Challenges in a Fragmented World".

Although both the EU and the Asian countries agree on the liberalisation of the market for financial services, there are different views on the extent and speed at which the markets should be liberalised. The Asian countries would like a more conservative and gradual approach towards market liberalisation to avoid financial instability due to contagion risks.[46]

CONCLUSION AND POLICY RECOMMENDATIONS

To conclude, there are divergent views on multilateral cooperation in Asia and the EU. The Asian view on multilateralism is primarily relations-oriented, whereas the EU is more rules-oriented. This general difference in approach towards multilateral cooperation is reflected in both the internal and external cooperation in the area of financial services of the EU and the Asian countries. The Asian cooperation mostly consists of non-binding commitments, whereas the EU's consists of powerful enforceable international regimes.

Although the most important international standards and codes are implemented across Asia and the EU, this does not mean that the rules and enforcement are the same. There is variance in the implementation of the standards and codes, which means that the EU and Asian countries cannot just rely on subscription to the standards and codes for mutual recognition.

The Asian countries have tackled this with several joint initiatives focused on the development of local currency bond markets and to a lesser extent on other capital markets, banking and insurance. In turn, co-operation at the EU level is more intrusive with the same or similar regulations, with limited discretion for national legislators in the implementation. Moreover, the financial institutions authorised in one EU member state can conduct activities in other EU member states without additional authorisation.

The EU equivalence provisions allow non-EU financial institutions of equivalent regimes to obtain direct access or under less stringent conditions and visa-versa. The provisions are, however, limited in scope and equivalence decisions are currently only covering the major economies and financial centres in Asia. Most of the financial institutions will therefore be authorised locally to provide financial services. In particular, in some Asian countries there are still restrictions in place limiting the possibilities for EU financial

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46 A. C. Robles, "EU Trade in Financial Services with ASEAN, Policy Coherence for Development and Financial Crisis," *Journal of Common Market Studies* 52(6) (2014):1324-1341.

institutions to establish themselves in the markets. The Asian financial institutions will require authorisation in at least one EU member state to conduct activities in the entire EU. The cross-border activities require cross-border cooperation between authorities in supervisory colleges and crisis management groups to address systemic risk.

Despite all these forms of cooperation, there is still ample room for further integration in the area of financial services. Most notably, strengthening of the enforcement mechanisms for international regimes, broadening of the EU equivalence regime as well as liberalisation and privatisation of the financial services sectors such as banking in Asian countries where this is not already the case. These measures should be designed and implemented in such a manner that ensures financial stability in both the EU and Asia.

Although both the EU and the Asian countries included in RCEP have agreed on integration, there are divergent views on the scope and speed at which the convergence should take place. Technical assistance and policy dialogues will continue to be important to contribute to this, especially in developing and emerging countries. But more might be required to ensure the full commitment of both the EU and Asian countries in this process. In particular, fairer representation in international bodies such as FSB and BCBS could contribute to this.

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