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Crisis as a Window of Opportunity for Regulatory Shifts and Institutional Reform: Insights from Policy Framing in European Financial Sector Regulation

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Abstract: This article examines the European response to complex financial crises. In particular it traces the debate on the revision of the financial services supervision, and demonstrates a major and abrupt shift in European financial governance with regard to two very important dimensions of every regulatory system: the locus and form of institutionalization (where the EU underwent a shift from a decentralized and network-based to a centralised and institutionalised regime), and the regulatory approach (where the EU embraces harmonization and standardisation after decades of support for mutual recognition). To illustrate these substantial shifts we conduct longitudinal qualitative content analysis of the European Council's Presidency Conclusions from the start of the 1990s to 2013, and we study the position papers presented by banks and banking associations in the so-called De Larosière consultation round of 2009 (which determined the future of financial services supervision in the EU). In the aftermath of the crisis, we find surprising consensus for both: support for central institutions and harmonization.

1. Introduction

The public policy literature has shown that crises can trigger institutional and policy change in issue areas ranging from food and environmental safety to urban planning and counter-terrorism (Birkland, 2006; Boin *et al.,* 2008; Boin *et al*., 2013b). In the aftermath of the 2008 global financial crisis, financial sector governance has received more scrutiny from decision-makers, practitioners, and academics. In the European Union (EU), we observe a changing institutional landscape such as the creation of three European Supervisory Authorities (ESAs) in banking, securities and insurance as well as the delegation of new tasks to the European Central Bank (ECB) (Howarth and Quaglia, 2013, 2014; Moschella and Tsingou, 2013). In particular, there has been a shift from the looser and more decentralized model of policy coordination at the EU level introduced in the early 2000s to a more centralized governance architecture after the 2008 global financial crisis and the subsequent Eurozone sovereign debt crisis (Spendzharova, 2014).

In analysing crises as a driver of institutional change, Kingdon (1995: 94) argued that windows of opportunity are opened by 'focusing events' such as natural disasters or crisis or by events in the political realm such as a new government coming to power (see also Zahariadis, 2007: 69; Ackrill *et al.,* 2013). Indeed, scholars have shown the vulnerability of the European financial regulation system to global financial turmoil (Lannoo, 2008; Moshirian, 2011; Ferran, 2012). Currently, it is widely accepted that the global financial crisis impacted on European policy change in the financial sector, and that financial regulation has been 'supranationalized' or 'Europeanized' (Mügge, 2013a). These developments seem indisputable in the aftermath of the financial turmoil, but they are far from 'natural' given the path of financial regulation the EU has followed throughout the 1990s and in the first half of the 00s. Assessing the governance arrangements prior to the crisis, Tsingou (2009: 3) observes transnationalised and informal network governance that "gradually came to reflect private sector interests and preferences". Similarly, Mügge (2013b: 208) observes "dislocation of regulatory debates away from national capitals towards transgovernmental networks" of like-minded experts. The issues discussed in these networks were technical, not salient and according to Tsingou (2009: 5) were viewed as "apolitical, with regulators and supervisors aligned with market participants."

The second major characteristic of the pre-crisis regulatory regime was that mutual recognition was advocated as the appropriate regulatory approach by the private actors involved. According to Mügge (2013b: 9) the London City banks – key players in the above-mentioned networks – were claiming that "pan-European mutual recognition of home country rules and abolition of 'cumbersome' regulation is the way forward". This view of the private sector – often depicted as 'negative integration' – was dominant over the Commission's argument for a set of harmonized rules (i.e. 'positive integration'). Harmonization was seen as unnecessary red-tape (Mügge, 2013b: 209). In sum, the pre-crisis debate was characterized by transnational standard-setting via decentralized apolitical networks that preferred the regulatory vision of mutual recognition. How did the crisis of 2008 influence the debate about the institutional reforms in European financial sector regulation?

This paper looks at the shifting governance framework in the financial sector and aims to trace how the two principles of decentralisation and mutual recognition lent their dominating position to new arguments and frames in the aftermath of the global financial crisis. The main objective is to examine how financial regulation and supervision has been conceptualised for the purposes of EU public-policy making throughout the past 20 years of European integration and to establish the role of the 2008 financial crisis therein.

The core questions in this context are the following: How have the frames changed especially with regard to institutionalization and regulatory approach, and what have been the arguments used to back up these changes? Has the position and impact of the most prominent group of stakeholders – the banks and banking associations – changed over time and in what direction? In answering these questions, we will follow a two-step approach. Firstly, we will map out how the European-wide discourse about financial sector regulation and the underlying argumentation changed over the last two decades. We will do so via analysing the European Council's Presidency Conclusions (see also Alexandrova *et al*., 2014; Alexandrova and Timmermans, 2013) from the signature of the Maastricht Treaty (1991) until present. This longitudinal qualitative content analysis allows us to demonstrate the rather abrupt changes in the framing of financial sector regulation during times of crisis (i.e. in 2008/2009), and the dynamics in the argument provision. It will be explored how the rhetoric of decentralized governance via technical/expert networks and the principle of mutual

recognition advocated in the 1990s got abruptly replaced by a discourse of supranational institution-building and harmonized rule-setting. The significant shift is hardly surprising when it comes to the public actors and the member states, who would naturally aim at eliminating the key characteristics of the regulatory regime that allegedly led to the crisis. The position of the private actors on this same issue is far from self-evident, however. They have advocated for, and importantly profited from, the model of decentralized regulatory competition, especially when it comes to the major international banking institutions.

We thus, in a second step, analyze the positions of the relevant actors in the policy subsystem. Financial private sector groups are generally considered to have considerable influence on financial sector regulation – largely due to the fact that this sector is dominated by highly technical policy-making, and the industry itself easily influences the regulators via its specialized expertise (e.g. Pagliari and Young, 2014). Next to the asymmetry of information, the resource base of the private sector in the financial domain is expected to further facilitate blockage of unwelcome regulatory reforms (see Young, 2013). Pre-crisis it was often argued that private sector influence led to a weakening of regulatory standards (see Young 2012 for an overview of the relevant international political economy literature on this issue). Post-crisis, claims have been made that private sector influence declined due to a decline in credibility. In the second part of the empirical investigation we analyze the private sector contributions to the debate on the future of the EU financial sector reform (the so-called De Larosière process from 2009). To what extent do we witness such a blockage of change and assertion of the principles of decentralization and mutual recognition in the contributions to online consultations? Based on the findings about dominant frames and changing argumentation framing at the European level, what can be concluded about the stance of the private sector on the regulatory debate after 2008?

2. The changing European-wide policy discourse about financial sector regulation

2.1 How to analyse the changing discourse?

The change in European-wide frames about financial sector regulation is illustrated via examining longitudinally the changing policy discourse in the European Council. This level of analysis is chosen because the European Council is the strategic decision-making

body of the EU that sets the policy priorities and negotiates the (re)design of the EU institutions in all policy domains. This is the arena for intergovernmental bargaining between the Member States (the principals) – an arena that sets the subsequent framework (manoeuvring space) for the activities of the EU institutions (the agents). The Presidency Conclusions (PCs) produced after every European Council summit are the materialization of the discourse of the principles. The PCs are rich and indispensable sources for the governance scholar because they state not only the approved decision but also the motivations of the member states in empowering or curbing the influence of the EU institutions. By plotting these motivations and the articulated claims (for the same or more enhanced supranational institutionalization) we will be able to establish when and how the policy dynamics developed.

In order to establish this empirically, we coded all PCs from the signature of the Maastricht treaty (1991) until present for the statements regarding regulation of the European financial markets. The longitudinal qualitative content analysis allows for a thorough delineation of the framing process and the discursive shifts in the decision-making process. The year 1991 is taken as a start because it marks the endorsement of the plan for an Economic and Monetary Union (EMU), which would spur discussions about the most appropriate scope, venue and level of institutionalisation of European financial regulation. Coding the Presidency Conclusions back to 1991 allows us to capture all significant institutional changes. Moreover, a longitudinal analysis of more than 20 years gives us sufficient scope to capture both incremental and abrupt discursive shifts.

The empirical analysis distinguishes two units of analysis: claims and argumentation. Claims indicate a preferred policy outcome, and can be identified by notions such as: "we welcome / approve / support / appreciate / anticipate…" a particular type of institutionalised financial regulation. In order to get a more nuanced and thorough understanding of the discourse on financial regulation, a second unit of analysis is introduced, namely argumentation. Argumentation refers to the stated reasons, objectives and goals that back the claim-making. For example, a claim such as increased institutionalisation at the EU level of governance can be backed by several arguments such as assuring consistency and transparency of the regulatory regime, greater financial stability, and reaping the full benefits of the Single Market. Such arguments are judgements about the existing policy 'reality', highlighting that it apparently lacks

sufficient consistency, transparency, stability. Importantly, the discursive linkage between claims and arguments is not unique and can occur in various combinations.

Each PC was read and interpreted for all statements regarding regulation of financial markets in Europe. When a claim is identified, it is recorded in the research protocol as one occurrence.[1] Usually, one claim per paragraph is coded. However, if the same claim is stated in several lines within the same paragraph, it is coded and protocoled as many times as it is articulated since the repetition demonstrates emphasis and assertion. The same goes for the annexes. Annexes are coded and if the annex contains a statement regarding financial regulation it is added as a 'regular' occurrence.

The procedure for arguments is identical, only bearing in mind that throughout the same paragraph various arguments may be raised. So, unlike with claims, it is important to note that the same paragraph can contain different lines of argumentation. For example, it can be said that a more integrated financial market is needed to ensure financial stability and to foster growth. Moreover, the discursive linkage between claims and arguments is not unique and can occur in various combinations. A claim can be backed-up by several arguments, and the same argument can be used in the articulation of several claims. This clarification is necessary because, as will be revealed in the empirical section below, the same argumentation such as reaping the benefits of the EMU may lead to very different claim-making – respectively for decentralized or more centralized institutionalization, depending on the time period.

2.2 From decentralized cooperation to centralization through new institutions

The empirical study begins in 1991 with the Presidency Conclusions of the Luxembourg summit of June 1991, based on the assumption that the agreement on EMU in the Maastricht Treaty might spur discussions related to the regulation of the European financial sector. In practice, however, the first reference to financial sector regulation in our dataset occurred in 1998, related to the endorsement of the Financial Services Action Plan (FSAP). After 1998, the references to financial sector regulation are regular, indicating a continuous policy debate on this issue in the European Council.

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[1] This coding technique is similar to the method of political claims analysis (PCA) used in measuring party positions by Koopmans and Statham (1999) and Helblin and Tresch (2011).

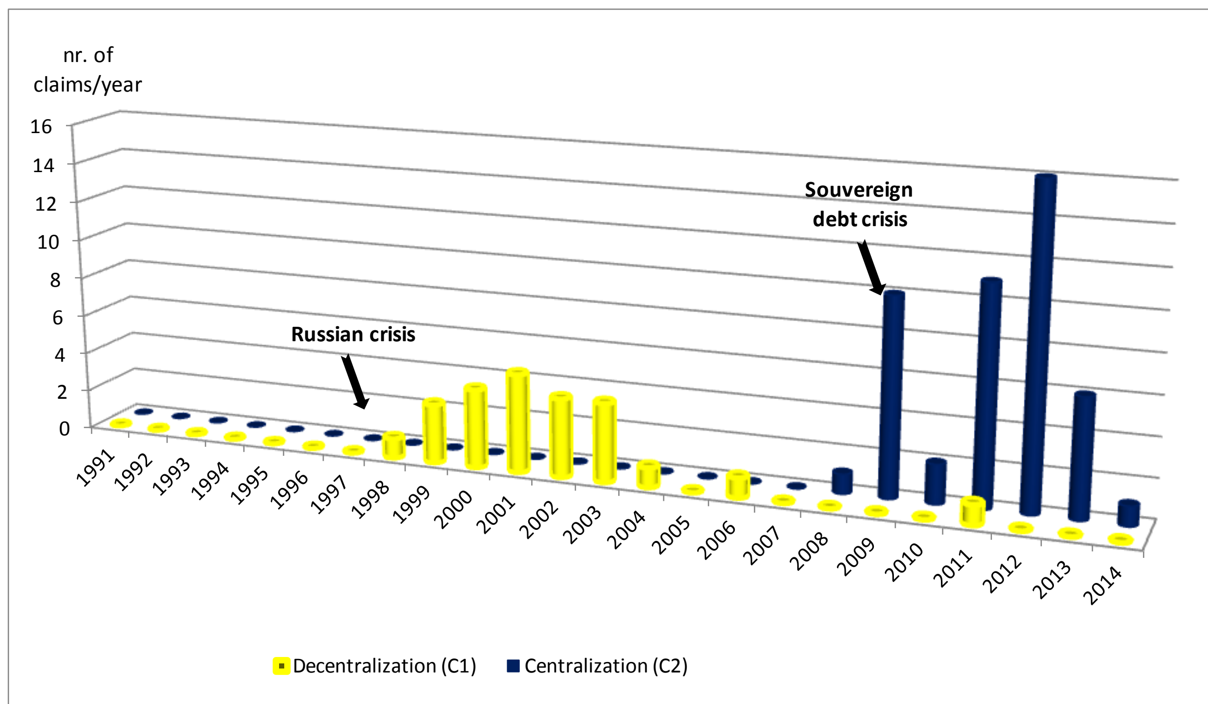
Figure 1 displays the dynamics of claim-making in terms of absolute number of references to two dominant claims we identified:

1. Claim 1 (C1): Cooperation within existing frameworks, for short 'Decentralization'. Actors are in favour of more cooperation, yet only within existing frameworks in or outside the EU institutional framework. This can be identified by empirical references to the approval to improve or reinforce existing measures or ensure a proper implementation of the European Financial Service Action Plan[2] (FSAP) for example.
2. Claim 2 (C2): Centralization through new EU institutions. Actors are in favour of a common regulatory approach, yet claim that a new institution at EU level is required in order to create a well-functioning and integrated financial market. Empirical references are expected to entail notions such as 'new architecture', 'new approach' and indicate the introduction of new institutionalized mechanisms such as the EFSF or SSM (Single Supervisory Mechanism) or EBU (European Banking Union).

Figure 1 indicates two periods in the discourse regarding financial regulation in the European Council: a first peak is observed between 1998 and 2004, associated with support for looser decentralized cooperation. In the years 2005-2008, there were only few claims expressed in Presidency Conclusions (PCs). While financial regulation was not on the agenda between 2005 and 2008, it suddenly came back in the discussion after the onset of the global financial crisis. As of 2009 a new peak is observed, but this time the discourse emphasises centralization of financial regulation and the creation of new EU institutions.

[2] The Financial Services Action Plan (FSAP) from 1999 is the first overarching policy at the EU level in the realm of financial markets and services. Its main aim was to complete the single market in financial services through harmonizing legislation and regulatory practice across the member states i.e. it asserts the financial regulatory framework of decentralised coordination in Europe.

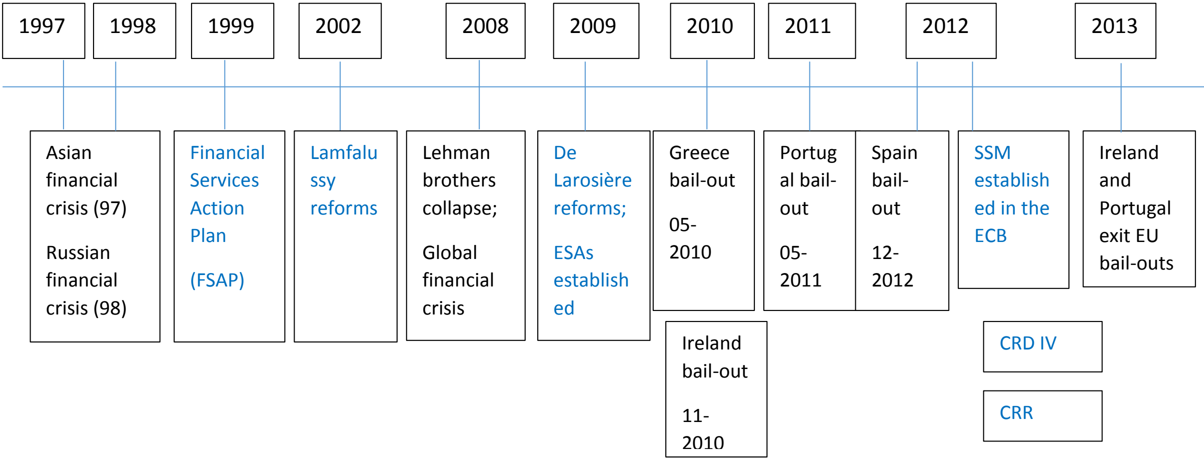
Figure 1: Overview of the claims regarding the institutionalization of financial regulation in the EU (1991-2014)



The next finding displayed on Figure 1 concerns the frequency of claim-making which can be considered as a crude measure of policy salience. During the first peak (1998-2004) there are on average 3 references to decentralization per year, while during the second peak (2009-2014) not only does C2 replace the claim for decentralised cooperation (C1) but the intensity of claim-making is much higher – on average 8 per year. To summarise, we observe significant and abrupt shift in the discursive landscape from C1 to C2, and very outspokenly so: if the average claim-making per year amounted to 2 references until 2008, in 2009 the claim-making peaked at 10 (even to 16 references in 2012).

How can these discursive shifts be interpreted? One direct observation is that both peaks follow the outbreak of a financial crisis: the Russian crisis of 1998 and the global financial crisis in 2008. For a chronology of events and the milestones in EU financial regulatory governance see Figure 2.

Figure 2: Chronological overview of crisis episodes and major EU financial sector policy reforms



The Russian financial crisis clearly focused the attention of the European Heads of State and Government in December 1998, and this is when we find the first reference to financial regulation in PCs:

> *"The European Council had an in-depth discussion on the situation in Russia. …… It stresses the Union's solidarity with Russia and its people during the present economic crisis. That crisis is multi-faceted. So too must be the response of the EU and the rest of the international community." (*PC Vienna, December 1998).

As visible from the excerpt below, concerns are expressed about the management of risk but the envisioned follow-up is within the existing (international) financial institutions:

> *"Consideration should be given to the strengthening and/or transformation of the Interim and Development Committees of the IMF and the World Bank. The European Council emphasises the necessity of strengthening the regulatory focus on risk management and prudential standards in financial sector institutions…" (*PC Vienna, December 1998).

These quotes indicate that there is a temporal association between the Russian financial crisis of 1998 and the first discussion in the European Council (EC) regarding risk management and financial regulation. Moreover, the crisis seems to have generated the needed consensus for the reinforcement of the on-going plans for completion of the

Single Market in financial services, because during the same Vienna summit of 1998 the European Council called on the Commission to prepare: "*a framework for action and the establishment of a High-Level Group. It asks for a Council report to the European Council in Cologne on the necessary steps towards a single financial market*" (PC Vienna, Dec. 1998, §51). The Financial Services Action Plan (FSAP) was indeed prepared and presented to the Cologne EC in 1999. It covered the period 1999-2005 and was the first overarching policy at the EU level in the realm of financial markets and services. Its main aim was to complete the single market in financial services through harmonizing legislation and regulatory practice across the member states. Due to its slow implementation, in 2000, the ECOFIN Council of Ministers appointed an expert committee, chaired by Alexandre Lamfalussy, to speed up EU-wide convergence in regulating securities markets. The so-called Lamfalussy framework was adopted in 2002 after lengthy negotiations between the European Commission, Council, and Parliament, and the principles outlined in the Lamfalussy report for the securities sector were extended to banking and insurance (Lannoo, 2008; Quaglia, 2007). In 2004, the European Commission reviewed the Lamfalussy process and engaged in extensive consultations to fine-tune its implementation (European Commission, 2005; see also Masciandaro *et al.*, 2009; Grossman and Leblond, 2011). Level 3 committees (CEBS, CESR, and CEIOPS) were the most innovative institutional feature of the Lamfalussy framework. They were set up to foster the exchange of best practices across member states and sectors, and facilitate regulatory convergence (European Central Bank 2007; Grossman and Leblond, 2011). However, they were only authorized to issue *non-binding* recommendations.

All in all, the period of 1998 to 2004 displays intensive rethinking of the EU regulatory framework characterised by the principle of decentralization and cooperation within the existing institutions. The Russian crisis generated momentum and consensus for the endorsement of the FSAP.

The second discursive peak that we observed in Figure 1 displays temporal association with the global financial crisis and the subsequent Eurozone sovereign debt crisis. The link to the global financial crisis is clear:

> *"The magnitude and the underlying causes of the ongoing global financial and economic crisis demonstrate the need to reshape macroeconomic global management and the regulatory framework for financial markets. Prudential*

> *rules, crisis management arrangements and the supervisory framework must be strengthened at the national, European and global levels" (*PC Brussels, March 2009).

Noticeably, the European Council gave impetus for more financial regulation but this time linked to claims to strengthen the European regulatory framework and, moreover, establish new institutions at EU level:

> *"The European Council also recommends that a European System of Financial Supervisors, comprising three new European Supervisory Authorities, be established aimed at upgrading the quality and consistency of national supervision, strengthening oversight of cross-border groups through the setting up of supervisory colleges and establishing a European single rule book applicable to all financial institutions in the Single Market" (*PC Brussels, June 2009).

In the aftermath of the 2008 global financial crisis, the European Commission launched a new initiative to redesign the European financial architecture following the recommendations of another high-level expert group, chaired by Jacques de Larosière (see Hodson and Quaglia, 2009; Quaglia, 2010). These reforms envisaged the creation of a European Systemic Risk Council (ESRC) that would be in charge of macro-prudential supervision – monitoring and assessing systemic risk in European financial markets (European Commission, 2009b). A second institution – the European System of Financial Supervisors (ESFS) – would complement the ESRC in the area of micro-prudential supervision. The ESFS includes three new European supervisory authorities in banking, securities, and insurance, which are de facto European agencies (European Commission, 2009c; Amtenbrink, 2011).

The overview of policy events in Figure 2 shows that since the mid-2000s the institutionalisation of the financial regulation in the EU progressively involved supranational elements and new institutions. It is evident from our data and from the historical overview that episodes of crisis were coupled with enhanced cooperation and institutionalisation. The discursive shift is abrupt and very outspoken in terms of intensity of claim-making. The claim for cooperation within existing institutions (C1) that dominated the European Council discussions for a decade (1998-2007) was

replaced in 2008 by the claim for a greater role of the supranational EU level (C2). Moreover, the timing of the discursive shifts and the follow-up reforms coincide with the timing of financial crises (the Russian, the global financial crisis and the Eurozone sovereign debt crisis).

Confirming Birkland (2006), our analysis indicates that the proximity and seriousness of the crisis elicit different types of institutional response. In the 1997-1998, the Asian and Russian crises only marginally affected the EU and did not undermine confidence in the existing governance architecture. The regulatory reforms endorsed in this period such as FSAP and the Lamfalussy framework reflect a more decentralized approach. By contrast, the Eurozone crisis was much deeper, affected multiple member states, and threatened the integrity of the Eurozone. It triggered a centralization of decision-making, monitoring, and sanctioning competences at the EU level.

When delving more deeply into the arguments provided for both claims, we see that three core arguments dominate the scene:

1. Argument 1 (A1): Spill-Over. This line of argumentation refers to the Single European Act (SEA) or the European Monetary Union (EMU) and asserts that since the Internal market is already relatively integrated it is only logically that this will spill over to financial services. Moreover, the EMU and the Euro as a single currency require a common regulation which is therefore the only policy to fulfil the aims of a single market.
2. Argument 2 (A2): Economic benefits. The identified problematic situation of this argumentation is that due to regulatory inconsistencies within member states, the full benefits of an integrated financial market cannot be gained. Thus, a common regulatory framework is needed to gain more efficiency and more growth and jobs so that citizens and business can benefit.
3. Argument 3 (A3): Risk Management. This argument identifies ineffective crisis management as the problematic situation. Hence, to ensure financial stability and to be able to identify systemic risk and react on market developments, a single risk management approach is necessary. Moreover, to avoid crises, an adequate supervision and absolute transparency must be ensured.

The normalized occurrence[3] of these three arguments is displayed in Figure 3.

Figure 3: Relative proportions of arguments for enhanced institutionalization in Presidency Conclusions of the European Council (1998-2014)

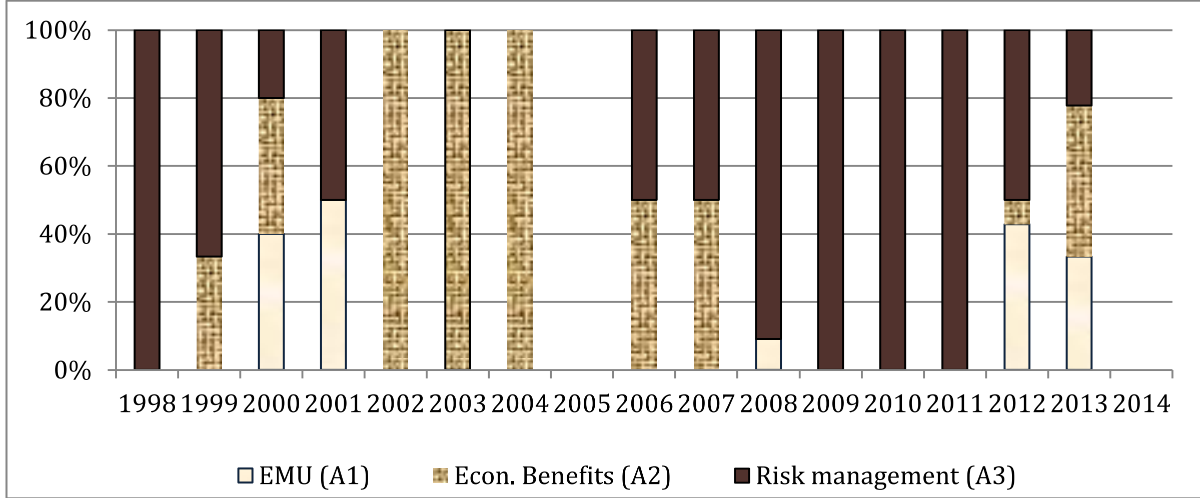


Figure 3 shows that the two peaks in claim-making (see Fig. 1) were backed by 3 main arguments: spill-over, i.e. completion of the EMU (A1) was mentioned 13 times in the studied period (1998-2014), the economic benefits from a common EU regulatory framework (A2) was evoked 14 times, and the necessity for financial stability and risk/crisis management (A3) was the most common argumentative line with 47 references.

The risk management argument is not only referred to the most. Interestingly, this is the main argument for redesign of institutions at the outburst of both crises. The spill-over and the economic benefit argument are evoked almost three times less, and also later. From a temporal perspective, there seems to be a pattern: the onset of a crisis (e.g. the Russian one of 1998 or the global one of 2008) generates intensive claim-making for greater institutionalization backed-up primarily by risk management arguments, once the crisis is 'tamed' – argumentation related to economic growth and sustainable benefits from an integrated market starts to dominate the discussion. This indicates that a crisis has a particular discursive 'lifecycle': concerns about systemic failure are followed by reassurance and growth, followed by a new critical event and

[3] The normalized occurrence indicates the proportion of references to a particular argument within the total number of articulated arguments in a given year.

new doubts about the robustness of the system, ensued by growth-related argumentation, etc.

All in all, this exploratory analysis demonstrates that the financial crises of 1997-1998, 2008, and the Eurozone sovereign debt crisis had a major impact on the change in frames deployed in the European Council. Moreover, it was demonstrated how the support for decentralised governance structure based on mutual recognition got replaced by the argumentation that a systemic and harmonized approach needs to be followed in the aftermath of 2008. The next section aims to trace the same developments in the debate about the set-up of the EU central institutions for financial supervision (the follow-up of the so-called De Larosière report). How do the dominant frames in the European Council resonate with the position of the financial industry?

3. What role for the financial private sector in changing frames?

What these first insights do not yet tell us, is *how* crises play a role in the changing of frames. We know from the relevant literature that crises only *potentially* lead to change, but not necessarily. Meijerink (2005: 1074) illustrates how the storm surge of 1953 and (near) river floods of 1993 and 1995 in the Netherlands did not lead to radical policy reform. Also a case study on New Zealand illustrates that the economic crisis in the 1980s played an important role, but was in itself not enough to lead to reform (Aberbach and Christensen, 2001). Crises do not seem to be a *sufficient* condition for reform to take place: 'the mere occurrence of an emergency and/or the prevalence of crisis discourse in a polity do(es) not guarantee that major policy changes will be made' (Boin *et al.,* 2009: 95; see also Alink *et al*., 2001).

In order for crises to lead to changing frames, and thus to potential policy change, we need to analyse the role of the relevant actors in the policy subsystem and their strategic use of frames. It is thus important to analyse how the relevant 'policy entrepreneurs' (as Kingdon, 1995, would call them), or 'advocacy coalitions' (as Sabatier, 1988, would call them), frame problems and solutions. In this article, we concentrate on the private financial actors. The highly globalized nature of the financial policy sector is known for ensuring considerable power of private actors: 'policymakers are wary of introducing policies that may disrupt the 'golden goose' of financial sector accumulation and they are more likely to listen to concerns of financial industry groups' (Pagliari and Young, 2014: 578).

The literature has already demonstrated significant disagreements among the EU member states about the direction and scope of European banking supervision reform. On the one hand, member states such as France, Italy, and Portugal have favored more supranational control over banking supervision and transfer of powers from the national to the European level. By contrast, member states such as the UK and the Czech Republic have been vocally opposed to far-reaching centralization of banking regulation and have demanded more national discretion (see Howarth and Quaglia 2013, 2014; Hennessy 2014; Spendzharova, 2014).

In addition to these disagreements among the member states, in order to contribute new insights to the literature, in this section we analyze banking sector policy contributions to the debate on EU banking supervision reforms after the 2008 global financial crisis. Our main data source are the Commission's stakeholder consultations[4] of March-April 2009 after the De Larosière report from 25 February 2009 (which outlined the future EU supervisory architecture). We focus on online public consultations, introduced by the European Commission in 2000 and steadily growing in number since (Quittkat, 2011: 658), as we know from the literature that consultations affect how regulators think about policy (see Chalmers, 2014). As online consultations are generally used for policy proposals that 'result in substantial economic, environmental and/or social impact on a specific sector, have a significant impact on major interested parties and represent a major policy reform in one or several sectors' (Commission, 2002: 15), they form a solid basis for our analysis of financial sector reform.

We focus on banks and banking associations, as the financial sector is generally considered to have considerable influence over regulatory outcomes due to highly technical issues requiring in-depth knowledge of the field and expertise (Pagliari and Young, 2014). Before 2008, it was often argued that private sector influence led to a weakening of regulatory standards (see Young, 2012). Can the same be claimed for the aftermath of the global financial crisis?

The empirical analysis followed the same coding procedure as described in Section 2 above, where claims and arguments were identified in the consultation submissions of banks or banking associations are recorded in an Excel working sheet for further

[4] Stakeholder consultations are identified by the interest groups literature as an important repository of information about private sector actors' positions on EU legislation (Eising, 2008; Rasmussen and Toshkov, 2013; Chalmers, 2014).

calculations of proportions and graphic display. Similarly to the PCs, the position papers were screened for preferences regarding the emergence of central institutions for financial supervision at the EU level of governance (as opposed to decentralized governance arrangement), and for stance on the mutual recognition – harmonization regulatory continuum. In the concrete case of the examined consultation round these issues could be operationalized or concretely linked to:

- Support for the creation of the European Systemic Risk Council (ESRC) – a body charged with macro-prudential supervision and warning for systemic risks, which will be complemented by micro-prudential supervision from the European System Financial Supervisors (ESFS);
- Support for the so-called Single Rulebook – a set of common rules applicable across all jurisdictions of the EU i.e. a harmonization instrument proposed by the Commission.

From the 116 position papers submitted at the consultation round, 42 belonged to private banking sector actors: 9 EU/Transnational Banking Associations, 18 National Banking Associations and 15 private banks. There is no explicit disapproval to the ESRC proposal in any of the 42 submissions. What is more, the macro-prudential proposals of the De Larosière working group, either cautiously or more openly, are supported. There is variation with regard to the addressees and the bindingness of the ESRC warnings, but the private banking sector on the whole approves of the proposed centralization:

> ING: *"ING supports the creation of a new European Systemic Risk Board (ESRB). We believe an independent macro-prudential body covering all financial sectors could help in identifying potential threats and risks to financial stability that arise from macro-economic developments and developments within the financial system as a whole.*
>
> *……..*
>
> *Regarding the issuing of risk warnings and non-binding recommendations we agree that the ESRB should address Member States or groups of Member States and supervisors, but not individual institutions to avoid potential issues of consumer or market confidence."*
>
> The Luxembourg Bankers' Association: *"Settlement of disagreements between*

national supervisors

We welcome the proposal of the Commission. We think that the European Supervisory Authorities are the best placed to settle disagreements between national supervisors."

With regard to the analytical dimension harmonization / mutual recognition, as exemplified by support for a Single Rulebook, the consensus also covers all 42 cases, and is very pronounce (almost no reservations are expressed):

> European Association of Cooperative Banks: *"We support the development by the new ESAs of a single rulebook and agree that they should be tasked with ensuring that a single set of harmonised rules and supervisory practices is applied by national supervisors."*

> Intesa Sanpaolo Group Italy: *.... it [the Single Rulebook] would allow firms to compete on the basis of the same rules and reduce compliance costs by removing the cost of complying with up to 27 different domestic regimes. Moreover, the single EU rule book would reduce the possibility of regulatory arbitrage and of regulatory competition, which played an important role in creating dangerous regulatory aps across market segments, institutions or financial jurisdictions."*

In sum, from the excerpts above and the performed analysis of the private banking contributions to the online consultation on the De Larosière group proposals displays remarkable consolidation and consensus with regard to the two dimensions analysed in this paper: emergence of EU agencies for financial supervision, and support for a harmonization regulatory approach.

4. Conclusion

While the impact of the global financial crisis on change in EU financial governance has generally been acknowledged, this paper aimed to look at the shifting governance framework in the financial sector. How have the two principles of decentralisation and mutual recognition lent their dominating position to new arguments and frames in the aftermath of the global financial crisis? The main objective was to examine how financial

regulation and supervision has been conceptualised for the purposes of EU public-policy making throughout the past 20 years of European integration and to establish the role of the 2008 financial crisis therein.

As a first step, we have analysed how the frames changed especially with regard to institutionalization and regulatory approach, and what have been the arguments used to back up these changes. The results of the qualitative content analysis of European Council's Presidency Conclusions for the period 1991-2014 show that crises have an impact on the claim-making and argumentation about institutional redesign. Depending on the proximity and the seriousness of the crisis (cf. Birkland, 2006), the shifting preferences of the member states and EU legislative institutions may lead to agreements for the transfer of competences and centralization at EU level, as in the case of the Eurozone sovereign debt crisis. The policy outcome might, however, also be closer to looser forms of decentralized cooperation in European financial regulation as in the case of the Russian crisis of 1998 when the impact of the crisis was less severe.

The Eurozone sovereign debt crisis directly affected the European Council discourse both in terms of claim-making and in terms of argumentative dynamics. This finding adds new evidence that the 2008 global financial crisis formed a window of opportunity for further development and agency empowerment in EU financial sector regulation (Spendzharova 2012; Boin *et* al., 2013; Groenleer *et al.*, 2014). Our results are in line with Moshirian's (2011: 505) conclusion that, globally, since the mid-19th century financial crises have led to the emergence of new national, regional and international institutions.

Concretely in the case of the EU after 2008, we observed a shift in two very important dimensions of every regulatory system: the locus and form of institutionalization and the regulatory approach. With regard to the former, the EU underwent a shift from a decentralized and network-based to a centralised and institutionalised regime. With regard to the latter, the EU embraced harmonization over the approach of mutual recognition. Thus, in the course of less than 5 years a policy domain that was guarded from supranationalization since the 1980s got Europeanized with the 'blessing' of the private sector. As we showed in the second step of this paper – where we analysed the position of the most prominent group of stakeholders, the banks and banking associations – this financial private sector that used to dominate policy-making in technical transgovernmental networks and favoured mutual recognition of

home country rules, now made way for a 180 degrees change to favouring centralization.

By plotting the temporal and relational evolution of claims and arguments in PCs and the consultation submissions from the banking sector, this paper traced the shift in dominant frames and displayed the formation of the current discursive support for centralised and harmonized approach to financial supervision in the EU. The findings corroborate the results from the study of Young (2013) on the US reform of financial supervision – that in the post-crisis period banks agree to stricter supervision during the agenda-setting and policy formulation (due to the increased issue salience) but compensate their approval via delays at the stage of implementation.

With respect to directions for further research, revealing such 'compensatory strategy' by financial institutions operating in Europe could be one of the directions (e.g. examination of the De Larosière Review consultation process of 2013). Furthermore, now that the EU level of governance has established competences and operates in the domain of financial services supervision, it is necessary to examine how this regime operates in practice and whether it is indeed capable to cut on red-tape and assure prudent financial operations. Another interesting domain to be explored is how policy entrepreneurs mobilise and push issues onto the macro-political agenda.

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