EU financial market regulation and stakeholder consultations

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Abstract

The shock of the international financial crisis trigged new policies for the regulation of the financial markets in the European Union that are meant to raise financial market stability and increase consumer protection. We analyse the three directive proposals on Alternative Investment Fund Managers, Deposit Guarantee Schemes and Investor Compensation Schemes as case studies to study the agenda setting processes, political mobilization, media coverage, and the policy frames of the actors. We do so by scrutinizing the EU level and national level consultations and by using a content analysis of official documents of the political institutions as well as of the media coverage and the individual stakeholders’ position papers. The findings indicate that the different legislative state of affairs on the Commission proposals is best accounted for by different issue characteristics of the proposals.

Key words: financial market regulation, alternative investments funds, deposit guarantee schemes, investors compensation schemes, European Union

1. Introduction

The regulation of the EU financial markets has come to the forefront of internal market policies in response to both the global financial crisis and the Eurocrisis. There is wide disagreement on whether the measures taken are merely ‘gesture politics’ (Buckley and Howarth 2010) or whether they introduce alternative regulatory paradigms (see Quaglia 2011: 678). No matter of that disagreement, the financial crisis definitely brought financial regulation under public scrutiny (Woll 2012: 1). We analyse the reform of EU financial governance by studying three cases of financial market regulation in the making: Alternative Investment Fund Managers (AIFM) (European Commission 2009a), Investor Protection Scheme (European Commission 2010a), and Deposit Guarantee Scheme (DGS) (European Commission 2010b).

We want to answer the following questions: Who or what brought these legislative proposals on the political agenda of the European Union (EU)? What were the main issues that were

1 They are part of a larger research project on interest representation in the European Union (http://www.intereuro.eu). They are among the 20 directive proposals that received the greatest media coverage in a random sample of EU directives that were proposed between 2008 and 2010.
debated during the policy debates? Why is it that the AIFM directive has been passed by EU policy-makers after a rather short span of time while the directives on DGS and Investor Compensation Scheme (ICS) have been stalled in the legislative process? More generally, we want to shed light on the relevance of framing processes, public salience, political mobilisation, and issue characteristics in the making of EU financial market regulation. We study these factors using process tracing, population and media study, as well as framing analysis. We focus on EU level processes as well as on the policy developments in four member states: Germany, the United Kingdom, Sweden, and the Netherlands. The comparative case study suggests that issue characteristics mattered more to the differential state of affairs on the three directive proposals than framing, salience or mobilisation.

The article begins by establishing how the three directive proposals arrived at the EU policy agenda and what issues were debated on each proposal. Then we discuss, if the public salience or the extent of political mobilisation mattered to the legislative state of affairs. Thereafter, we compare the frames that have been present at the EU level and in the national arenas. We conclude by discussing the lessons derived from the case studies for the relation between frames and EU policy processes.

2. Regulation of the EU Financial Market: Alternative Investment Fund Managers, Investor Compensation Scheme, and Deposit Guarantee Schemes

The three directive proposals are part of the EU program to reform the economic governance of the financial sector. The EU’s regulatory regime of the financial market had been put in place before the financial market crisis in 2007. It was based on the Financial Services Action Plan that was completed in 2005 and the Lamfalussy framework that has altered the procedures for EU financial legislation and regulation since 2001. There is wide agreement that these measures aimed at strengthening financial market efficiency and integration rather than financial market supervision (Posner and Véron 2010) and led to a ‘decentralized model of supervision’ (Schammo 2012: 775).

When the financial crisis started in 2007 (Begg 2009), after initial firefighting, a first set of reforms changed the institutional framework of financial market supervision and regulation. An expert committee, the Larosière committee, was set up in 2008 to review EU financial market regulation (de Larosiére 2009). Based on its recommendations, the European Commission (EC) (2009) proposed to set up a new regime of supervisory and regulatory institutions. A European Systemic Risk Board (ESRB) would be put in charge of macro-prudential supervision to monitor and assess systemic risks in European financial markets. The European System of Financial Supervisors (ESFS) which includes the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities Authority (ESA) would be put in charge of micro-prudential supervision. In essence, the ESFS has transformed the previous Lamfalussy level three committees into bodies with greater supervisory, rule-setting and coordinating powers while day-to-day supervision remains in the hands of member state authorities. An important argument against greater centralisation of regulatory capacities at EU level during the debate on these reforms was that the costs of regulatory failures would not be borne by the EU institutions but by national taxpayers (Schammo 2012: 780). ESRB and ESFS were adopted in late 2010 (Regulation No. 1095/2010).
The three directive proposals that we study are part of the effort to strengthen financial market stability following the global financial crisis. They extend EU regulation to the hedge fund and private equity sectors and revise existing EU directives on investor protection and deposit guarantee schemes. The EU institutions discussed these regulatory areas well before the financial market crisis of 2007 but did then not plan to take significant actions. An expert group set up by the EC on finding ways to improve the efficiency of the EU investment fund markets advised against the regulation of hedge funds in 2006 (Alternative Investment Expert Group 2006). Similarly, after a review of the 1994 Directive on DSG, the EC decided in 2005 that no changes were necessary at the time. It is fair to say that only the global financial crisis prompted greater action by the EU authorities in these areas to prevent further market failures and to increase the stability of the entire financial system.

The Alternative Investment Fund Managers (AIFM) directive proposal aimed at harmonizing the requirements for entities engaged in the management and administration of alternative investment funds, but excluding entities covered by the EU directive on Undertakings for Collective Investment in Transferable Securities (UCITS) (COM (2008) 458). They include hedge funds, but also private equity funds. The AIFM directive was proposed in June 2009 and passed the EU’s legislative one year later. The other two directives were proposed in 2010 and are still in the legislative debate. The EC tabled both proposals together as a ‘package to boost consumer protection and confidence in financial markets’ in July 2010 (European Commission 2010c; European Commission 2010d: 1). The proposal for a DGS directive was introduced to revise earlier legislation on this subject. It is meant to protect savers and to prevent bank runs in case of a bank’s bankruptcy as well as to harmonise the more than 40 national deposit protection schemes that exist in the European Union. The proposal for the ICS directive aimed at revising the existing ICS directive (97/EC/9 from 1997) and harmonizing the 39 existing investor compensation schemes in the EU member states. Its focus is to compensate retail investors (small investors) in those circumstances in which investment firms are not able to return money or financial instruments as a result of a significant fund failure. Both proposals were blocked in the legislative process after the European Parliament’s first readings on these proposals in 2011. In the following section we analyse why these topics reached the EU policy agenda and what policy issues were debated.

2.1 Directive on Alternative Investment Fund Managers

Several observers find it puzzling that the AIFM sector has become the subject of EU regulation. There were no significant international regulatory requirements for the hedge fund sector that the EU had to adopt, and the sector has not been identified as a root cause of the financial crisis. Moreover, while there was no EU regulation of the sector in place, it was already subject to national regulation in several member states. However, in the international arena, gradually consensus emerged that hedge funds might have a systemic impact and be therefore brought under official oversight (Ferran 2011: 389). The Larosière committee that reviewed the EU financial regulation system found it guilty of important transmission effects ‘through massive selling of shares and short-selling transactions’ (de Larosière 2009: para 86). The committee came close to recommending United Kingdom (UK) style national regulation as best practice (de Larosière 2009: paras 86-87). In addition, it recommended establishing an oversight institution that would gather relevant information from the industry and evaluate them.
Given the lack of international requirements and clear-cut causal effects of the sector on the financial crisis, what brought AIFM-regulation on the political agenda of the EU? Most authors point to a mix of domestic economic structures, regulatory approaches, and issue characteristics even though there is disagreement on the relative importance of these factors. First, hedge funds would seem to be important financial players in the corporate governance structures of Liberal Market Economies (LME) while they might disentangle the close relations between banks and enterprises or across enterprises that supposedly prevail in Coordinated Market Economies (CME) (see Hall and Soskice 2001, Vitols 2001). LMEs like the United States (US) or the UK where more than 80 per cent of the European hedge fund industry is located would generally support the industry’s position in favor of no or light or self-regulation because they aim more at financial market innovation, emphasise competition in financial markets, and rely greatly on the industry’s self-regulation (see Quaglia 2011: 669). In contrast, CMEs like Germany or the Netherlands or countries with a ‘state capitalism’, even if transformed, like France (Schmidt 2002: 5), would suggest tighter control of the hedge fund sector and perhaps support established financial institutions in order to prevent major disruptions of the established finance-enterprises nexus. France and Germany that aim at financial stability and consumer protection by means of rule based regulation with a strong role for public actors have argued for a stricter regulation of the hedge fund industry well before the financial crisis.

Secondly, the importance of the hedge fund sector as a major symbol for global ‘shadow banking’ and the systemic risks it entails must be stressed. The French President Sarkozy and the German Chancellor Merkel were crucial in placing this issue on the EU’s political agenda (Quaglia 2011: 670-1). Tighter control of hedge funds fit nicely with a ‘pro-regulation rhetoric’ of the French President to win public support for the upcoming elections (Woll 2012: 15). In all respects – the pursuit of domestic economic interests and established regulatory ideas as well as the politics against a symbol of global financial capitalism – the financial crisis was a window of opportunity for the French and German governmental actors. They flagged the idea of stricter hedge fund regulation in both international fora like the G20 and in the European Union. Given the Franco-German tandem’s pressure and two critical reports in the European Parliament on hedge funds and institutional investors (European Parliament 2008a, b), the EC reversed its initially reluctant position to regulate the sector and put forward a Directive proposal.

The Spanish and the Swedish Presidencies of the EU Council brought several revisions to the directive proposal that allowed for a compromise between the member states. The compromise was mostly negotiated between France and Germany, which were critical of hedge funds and blamed them for the proliferation of the financial market meltdown, on the one hand, and a coalition of countries led by the UK which argued that stricter regulation would drive financial companies out of Europe (McDermott 2009). The compromise solution established minimum standards for all member states and subjected all alternative investment fund managers who manage funds above a minimum size to authorisation by their home member state supervisor and supervision according to commonly defined principles. This allowed both France and Germany to propose harsher requirements in their national regulations shortly before and after the directive publication (for example the German Investment Code introduced in July 2012).
It is contested if the revisions to the Directive proposal watered the original proposal significantly down (Bucklay and Howarth 2011) or if the directive may be regarded as a sea change in the regulation of the hedge fund industry (Quaglia 2011). According to the EC, the two most controversial policy issues – the scope of the directive and the opening of the European market to funds from third countries after obtaining a European passport – have been settled very closely to its original proposal (Interview European Commission, 9 February 2012).

2.2 Directive on Deposit Guarantee Schemes

Although, after reviewing the 1994 Directive on Deposit Guarantee Schemes in 2005, the EC arrived at the conclusion that no further actions were necessary, the financial crisis triggered a new review in 2008. In 2009 the EU Council and the European Parliament passed Directive 2009/14/EC. This directive raised the previous coverage level from €20,000 to €50,000 and eventually to €100,000 from 2011 onwards. It reduced the allowed payout delay to a maximum of 35 working days and ended the co-insurance system according to which savers would have to bear a 10 per cent loss of their deposit guarantees. The EC was requested to present a report on the effectiveness of these provisions and present, if necessary, proposals for amending the Directive.

Why did this topic reach the EU’s political agenda and was decided so quickly? This revision of the 1994 Directive was part of the immediate fire-fighting against the financial crisis and meant to restore confidence in the banking sector. The bankruptcy of a number of banks during the financial crisis (for example Icesave in Iceland, or Northern Rock in the UK) and the varied national responses to the question of how to secure the liquidity of national financial systems put national deposit schemes into focus. The fact that banks’ level of liquidity rushed down during the crisis raised concern that the established levels of deposit insurance schemes might not be sufficient and that savers needed additional reassurance. The member states were concerned about capital flights and had an interest in limiting state liabilities and a regulatory competition with regard to national guarantee schemes. When Ireland decided to guarantee savings deposits as well as a range of liabilities held by the country’s six biggest banks (European Voice 2008a & b) the UK felt pressurised to increase its minimum deposit guarantee from £35,000 to £50,000 and several other member states followed. Given these troubles, the member states quickly agreed on a directive that raised the level of guarantees for the bank account savings of natural persons significantly up to €100,000 and provided for a minimum harmonisation of the national schemes. The EC was asked to review the directive’s provisions and develop proposals for further legal amendments by 2009, if necessary.

After public consultations, expert hearings, and recommendations by the Larosière committee for further harmonisation, the EC presented a recast-proposal (European Commission 2010b) which aimed at a significantly greater harmonisation of the national deposit protection schemes. The EC argued that the minimum harmonisation provided for by earlier legislation was ineffective in protecting depositors’ wealth and also inconsistent with the proper functioning of the internal market (European Commission 2010b: 3-4). In particular, the EC proposed to further shorten the payout period to seven days and to amend the funding mechanisms of existing protection schemes. While the previous directives had not directly addressed the funding of DGS, the recast proposal suggested regulating the financing of these
schemes in order to protect a larger per centage of the eligible deposits. The EC aimed at an *ex ante* fund size of 1.5 per cent of eligible deposits amounting to approximately €150 billions and suggested a transition period of ten years to reach this level (Gerhardt and Lannoo 2011). Another 0.5 per cent could be extracted through *ex post* bank contributions. According to the EC, the proposal would increase the banks’ contributions to DGS by four or five times and lower their profits by about 2.5 per cent in normal times (European Commission 2010b: 6).

This proposal met with substantial criticism from the member states. The German and the Swedish parliaments (October 2010) issued reasoned opinions under the subsidiarity control mechanism. In the UK, disagreement on the effects of the directive on the small banks caused a re-examination of the proposal by the UK Financial Services Authority and the initial rejection of parts of the proposal. The Dutch debate on deposit guarantee schemes started prior to the EC’s proposal and was prompted by the collapse of Icesave, an online branch of the Icelandic bank - Landsbanki. Although the bank provided services both in the Netherlands (since May 2008) and the UK (since October 2006), its bankruptcy defined only the Dutch debate. Emphasis was on the guarantee schemes for non-Dutch banks operating in the country and the bail out of Icesave’s customers in the Netherlands.

The most controversial issue of the proposal has been the level of deposits that are to be covered and the setting up an *ex ante* fund. The political significance of the level of deposits became evident during the banking crisis in Cyprus when bank accounts up to €100,000 were exempted from contributing to the financial consolidation of the banks on grounds of the EU deposit guarantee scheme directive provisions that had just been passed. On the introduction of an *ex ante* fund, Belgium, Spain, Finland, Portugal, and Romania as well as the European Parliament supported the EC’s proposal that 1.5 per cent of *all* bank deposits of natural persons and enterprises should be covered (Agence Europe 2011). Sweden claimed that even 1.5 per cent was insufficient. In contrast, France, Germany, and the UK all rejected this threshold as being far too high and established that a fund should cover only 0.5 per cent of bank deposits. Further negotiations among the Council members led to a consensus among the large majority of the member states that the size of the fund should amount to one per cent of the covered deposits (of €100,000 per saver). In Germany, the proposal was debated as introducing a ‘transfer union’ through the back door by which German savers and banks would guarantee the safety of bank accounts in Southern Europe. Germany also insisted on the continuance of mutual deposit guarantee schemes as they were in place for German Savings Banks and Co-operative Banks. They were also in favor of voluntary deposit guarantee schemes as they were in place for German private banks in the BdB (Bundesverband deutscher Banken). The former met the approval of the European Parliament in its first reading, and the latter met the criticism of the EC due to a lack of legal enforceability. In its first reading, the European Parliament stuck to a fund size of 1.5 per cent but only for deposits up to €100,000 as these were guaranteed by the DGS directive that was in place. It lengthened the transition period for the build-up of the fund to fifteen years rather than 10 years as had been proposed by the EC and set the payment period at 20 working days rather than seven days.

In 2012, the EC raised the symbolic significance of an agreement on the DGS directive by presenting this proposal as an elementary component of a European Banking Union, consisting of a single supervisory authority for banks, a single deposit guarantee scheme, and banking restructuring mechanisms. The Banking Union, in turn, was portrayed as a crucial condition for allowing direct payments to banks under the European Stability Mechanism (Agence Europe 2012). Hence, over time, the status of DGS moved from quick fixes to maintain investor confidence to becoming an elementary stabilisation mechanism. While
crucial aspects of the banking supervisory system and the limitation of direct regulatory powers of the EU to about 200 very large banks have been agreed upon by the Council of Economic and Finance Ministers in December 2012, the deposit guarantee scheme directive and the cross-national burden-sharing involved in it has been placed on the agenda of the European Council for June 2013.

2.3 Directive on Investor Compensation Schemes

Following the financial crisis, there had been increased calls for steps to be taken to restore investor confidence in the system and to revise the 1997 ICS directive (Directive 97/9/EC). Concerns were raised over the safety of investments, the funding of schemes and the delays in receiving compensation (European Commission 2010a). However, even though there is little evidence that investors demanded greater compensation due to the financial crisis an amendment of the 1997 directive was generally felt necessary. A further rationale for the ICS proposal was the potential for competitive distortions arising from member states imposing their own compensation requirements on third country firms.

The proposal for the Investor Compensation Scheme directive was presented as part of the EC’s package to boost consumer protection and confidence in financial services. The proposal stipulated to compensate investors in case that an investment firm that held and managed the money and the financial instruments of its clients should be unable to repay or return the invested money or the financial instrument due to fraud or other administrative errors in the investment firm. The proposal covered also investments in funds regulated by the UCITS and Markets in Financial Instruments (MiFI directives (European Commission 2010a). According to the ECE, the protection of consumers required an increase of the existing coverage level and stronger common rules concerning the funding of the schemes at national level. Moreover, it suggested that investors with cross border investments should enjoy the same level of protection in all member states. The main issues were how to fund the ICS and what investments to cover by the ICS (Interview European Commission, 10 May 2012). A risk based approach should be applied to fund the schemes in that the calculation of contributions should be based on the potential compensation risk incurred by a firm. The ECE suggested ex ante funding. The member states should ensure that each investor compensation scheme establishes a target fund level of at least 0.5 per cent of the value of the money and financial instruments that were held, administered or managed by the investment firms or collective investments covered by the scheme. If the amount of compensation funds should prove to be insufficient for the claims, the funds should call additional money from the financial institutions or borrow it from other schemes. In that respect, the ECE proposed a compulsory lending level of 10 per cent among the member states’ ICS. Additionally, the ECE discussed an upper limit to be imposed on the compensation coverage. The ECE proposed to compensate investments up to €20,000 which is significantly less than the €100,000 for bank deposits in the case of the DGS.

In response, both UK parliamentary chambers discussed issuing a subsidiarity complaint. The British parliamentarians argued that an investment compensation scheme might undertake inappropriate, careless or risky actions because it was relying on the fail-safe mechanism of cross-border lending. To avoid introducing moral hazards it would be better not to have recourse to other member states’ schemes, but to have each member state ensure that the members of the national compensation schemes take full responsibility themselves. Similarly,
Dutch and Swedish stakeholders rejected the proposed method of financing by a mutual loan system among national investor compensation schemes. In particular, the Dutch government was afraid of becoming the victim of invalid claims from other EU countries.

Furthermore, British, German, and Dutch governments claimed that national investor compensation provisions were already in place and that the proposed EU level regulation would neither improve the situation nor guarantee the future stability of the financial market. Swedish authorities appreciated the potential of the EC’s proposal to improve the functioning of the single market for investment services but they also argued that the relationship and proportion between the investor compensation scheme and the deposit guarantee scheme proposals had to be adjusted in new document. In sum, all four governments rejected the ECE proposal.

The European Parliament (EP) (April 2011) was also critical of the EC’s proposal. It highlighted two issues: first, if the mutual loan system proposed by the ECE would not trigger moral hazards, and, second, if the level of the proposed ex ante target fund level of 0.5 per cent was adequate. The EP placed the first issue on its agenda due to the intervention of the UK Financial Services Authority that was supported by the UK MEPs. The proposed borrowing mechanism was recognised as a useful tool. However, the EP underlined that member states should maintain the responsibility for having appropriate financing mechanisms in place and suggested that only five per cent of a scheme’s funds should be available for a compulsory lending mechanism. On the second issue, the EP suggested that the ex-ante funds should be put in place up to a target fund level of only 0.3 per cent in all member states but within a period of five years instead of ten years. According to the EP, this formed a justifiable level of funding. Furthermore, the EP rejected broadening the scope of the directive to cover UCITS arguing that the existing UCITS and MiFi Directives covered the topic sufficiently. The EP favored also a full harmonisation of investor compensation at a level of €100,000 rather than the minimum standardisation at the level of €20,000 that had been proposed by the ECE.

The ECE opposed the amendments suggested by the EP (European Commission 2011). Until today, the EP and the Council have not been able to find a compromise on the EC’s proposal. The EP maintained its position on a maximum level of compensation (€100,000) and on excluding the UCITS unit holders from the ICS scope. The Council has not reached a common position. The member states disagree on the compensation level (ranging between €20,000 and €50,000), and the majority of them reject extending the scope of the Directive to UCITS unit holders.

In the next section, we discuss three potential causes of the different state of affairs in the three proposals: public salience, the extent of political mobilisation, and policy frames.
3. Media Coverage, Stakeholder Involvement, and Policy Framing in the Threee Policy Debates

3.1 Media Coverage

How important was the public salience of the proposals for the outcomes? The coverage of the three proposals in the media may be considered as an indicator for the salience of the debates in the national arenas (Figure 2.4.1). The media analysis indicates that the public salience of the three proposals varies. The AIFM proposal attracted the greatest attention of all three proposals, while there is almost no coverage of the ICS proposal. However, it is important to bear in mind cross-country variations. The cross-national comparison indicates that the British press is responsible for the largest part of the AIFM coverage, while the Swedish, German, and Dutch newspapers pay fairly equal attention to the ICS and DGS proposals. Given the economic importance of the hedge fund industry in the UK, it is not surprising that it attracted the greatest media attention there.

![Figure 2.4.1 The number of articles on the AIFM, DGS, ICS proposals in national newspapers](image)

3.2 Stakeholders Involvement

What role does the extent of political mobilisation play for the state of affairs? The European Union has developed explicit consultation regimes to strengthen stakeholder involvement in the formulation of EU policies, and the member states have also organised specific consultations. 704 actors participated in these consultations or were mentioned in the media as

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2 The articles were retrieved from: Süddeutsche Zeitung, Frankfurter Allgemeine Zeitung, Volkskrant, NRC Handelsblad, Dagens Nyheter, Svenska Dagbladet, the Guardian, Daily Telegraph.
actors involved in these proposals (excluding the EU institutional actors). The number of involved actors differs significantly across the three legislative proposals (Figure 2.4.2). 63 per cent of the actors were visible in the consultations on the AIFM directive (449 actors), which attracted considerably more attention than the other two proposals, particularly so in the UK. The most visible categories of actors are interest groups, companies, governmental actors, and public agencies. The types of actors involved in the different proposals vary to some extent. Interest groups were the most active type of actor on DGS and ICS, while companies were the most active type on the AIFM directive.

![Figure 2.4.2 The types of actors involved in the formulation of the AIFM, DGS and ICS directives](image)

In sum, the salience of the three proposals varies significantly across the four member states, and so does the involvement of national stakeholders. The policy proposal that received the greatest media and stakeholder attention, the AIFM directive, could be passed by the EU institutions in a rather short span of time while the two proposals that were far less visible proved to be more controversial in the EU legislative process. The financial and re-

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3 Details of the categories: Interest organisation (NGOs, umbrella organisations, unions, business associations), think-tank (research groups, expert groups, consultancies, law firms), company/firm (banks, enterprises, hedge funds), institution (hospital, university, charities), court, politician (prime ministers, presidents), political party, parliamentary actor (single parliamentarians, parliament committees, parliamentary chambers and working groups), governmental actor (individual ministries, governmental commissions, committees), public agency, regional authority, international organisation.
distributive implications of the ICS and the DGS proposals seem to have stirred greater controversy among the member states than the regulatory aspects of the AIFM proposal.

3.3 Policy framing

In this section we explore if the framing processes account for the different state of affairs in the three policy processes. For our purposes, we define a frame as an argument that emphasises a specific aspect of a policy proposal in a public policy debate (Entman 1993). Frame analysis highlights the ways in which political issues are presented (Price and Tewksbury 1997:184) and seeks to find out if these (re)presentations make a difference to policy outcomes. We identify frames by means of a content analysis of the arguments that different stakeholders employed in their position papers and public statements.4

What are the most important policy frames in these three legislative proposals? All three policy debates were rooted in an encompassing EU-level frame that presented the ECE proposals as important means to achieve financial market stability and contribute to the security of the Single European Market. In conjunction with the financial market crisis, this frame brought the entire set of reforms of EU financial market regulation under way. The main frames in the four EU member states have been consistent with the EU level frames pointing to the homogeneity of the national and EU level policy debates. The political controversies concerning the three directive proposals were situated below the level of frames and focused on specific policy issues.

The ECE introduced the AIFM proposal as a directive that would shield consumers and institutional investors from high risks and contribute to the stability of the financial system. The national debates varied this theme. In the UK, an additional frame focused on sustaining the global competitiveness of the UK and EU financial markets. The argument that the future directive ought to be fully compatible with the global approach to the regulation of fund managers aimed at preventing the introduction of European hedge fund regulation. After it had become clear that a European directive was under way, the British debate shifted to the tools that the directive would provide for supervisory authorities in order to shape the details of the directive. In all four countries the necessity of the directive was then agreed upon.

The national frames on the DGS proposal also resonated with the EC’s proposal. The EC’s main frame was to improve the protection of depositors, through reliable funding of the deposit guarantee schemes. Variations of this frame were present in all four member states. The most frequently used national frame in DGS debate was focused on boosting the consumers’ confidence. The EU level debate on the ICS directive concentrated on strengthening the confidence of investors in the EU market through a better protection of their investments. The ‘protection of consumers and investors’ frame was used in all four countries.

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4 We collected 746 documents on the three directive proposals (207 media articles and 539 position papers from different stakeholders). The majority of the statements were given in the consultation processes of the ECE or the national authorities. For this article, we used a sub-sample of 170, randomly selected, policy documents from the four countries and of the EU level actors.


4. Conclusions
The AIFM, DGS, and ICS directive proposals are part of the EU’s effort to respond with a unified voice to the global financial crisis and the crisis of the Eurozone. There is a disagreement on whether they are ‘gesture politics’ or whether they introduce new regulatory paradigm. And yet, it is possible to categorise them as examples of reforms that are embedded in the master frame of stabilizing financial markets by strengthening EU financial market supervision and regulation. The AIFM directive extended EU level regulation to the hedge fund sector in June 2011. The DGS recast proposal and the proposal on investor compensation schemes aim at a significantly greater harmonisation than their predecessors.

Why did the EU (so far) only pass the AIFM directive? The master frame of financial market stabilisation and consumer protection guided also the national policy debates. In conjunction with the international financial crisis and the Eurocrisis, it prompted and legitimised EU policy-makers to take action in the three areas that we analysed, but it cannot account for the fact that the AIFM directive was passed quickly while the other two proved to be highly controversial. Neither can the varying salience of the three policy proposals in the four member states or the different degrees of political mobilisation on each directive proposal account for this difference. We witness the greatest media attention and the greatest political mobilisation in the UK, which was reluctant of hedge fund regulation. Our analysis suggests that issue specific implications mattered more for the present state of affairs than frames, mobilisation, and public salience. The potential financial and (re-)distributive implications of the DGS and the ICS proposals, involving the deep intrusion into long-established national protection schemes, the setting up of ex ante funds, and enabling cross-national monetary loans and transfers proved to be a greater obstacle than the extension of EU supervisory powers to an hitherto little regulated financial sub-sector. Negotiations on these two directives have therefore been shifted upwards to the European Council meeting in June 2013.
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