Osborne hails EU banking union deal

UK minister praises 'non-discrimination'

Speculation over two-speed Europe

By George Parker in London and Alex Barker in Brussels

A banking union deal struck in Brussels was a "significant moment" in forging a new relationship between Britain and the eurozone, the UK chancellor of the exchequer said yesterday.

George Osborne believes the agreement will provide safeguards for the City of London and lays down the principle that the rights of non-eurozone members must be protected as single currency countries move towards closer union.

However, some in Brussels argue that Mr Osborne's deal is only a holding operation and London's competitiveness may be undermined if banking union is a success.

The banking union deal includes a provision that the European Central Bank should *not discriminate* against any member state "as a venue for the provision of banking or financial services in any currency".

Mr Osborne told MPs the "non-discrimination" clause was important. Britain is taking the ECB to court over a move that could force London-based clearing houses to decamp to the euro area. The risk to London was highlighted last week by Christian Noyer, the Bank of France governor and an influential voice on the ECB governing council, who told the Financial Times: "We are not against some business being done in London but the bulk of the business should be under our control."

The deal lays down new voting rules for the European Banking Authority, which advises on technical standards, stipulating that any decisions can be blocked if they do not command a simple majority of non-euro countries.

Britain has lavished diplomatic effort on the latter aspect of the agreement, which recognises for the first time the principle that eurozone countries cannot impose decisions that are opposed by most "outs", even if the precise voting mechanism may not be repeated in other areas of the single market.

The question of how Britain preserves its say in the single market in the face of possible "caucusing" by countries in an ever more tightly knit eurozone is preoccupying David Cameron at a European summit that began yesterday in Brussels. "The European Union, the eurozone, needs a banking union but Britain won't be part of this banking union and we have properly protected our interests in the single market," Mr Cameron said.

However, Andrew Tyrie, who chairs the UK House of Commons Treasury committee, said he wanted to study the legal fine print.

Open Europe, a think-tank, pointed out that the voting deal for the European Banking Authority would have to be reviewed if fewer than four of the EU's 27 members stayed outside the banking union.

A senior EU official agreed: "It is a precedent but it all becomes an issue when the banking union grows to 24 or 25 and it has a common resolution and deposit scheme. Then the caucusing fears of the Brits will come home to roost."

The biggest threat to London was that *banking union* would be a success and deemed to be more credible than the financial architecture and guarantees provided by the UK, the official said. "The risk is that in the medium term the continental banking system provides more stability. It won't be a problem of access but a business decision to relocate." Alexandria Carr, a former UK Treasury lawyer now at law firm Mayer Brown, said the UK and its allies appeared to have secured important safeguards to ensure that the banking authority was not dominated by countries within the banking union.

"It also appears that the UK will be joined by Sweden and the Czech Republic outside the *banking union*," she said. "This will help ensure that the UK is not isolated but time will tell whether this division marks the genesis of a two-speed EU, with the participating countries moving towards an ever closer union."

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Battle lines drawn for next stage of integration

Rule book

Now supervision has been agreed, the focus is on joint rescues, write Alex Barker and Quentin Peel

One exhausted EU official dubbed it "the miracle". But before a legal text on creating a single bank supervisor had even been released, the battle lines were already drawn over the next phase of banking union: joint rescues for failed banks.

This first step – common supervision – was near unthinkable at the beginning of this year. When European finance ministers agreed at 4am yesterday to surrender oversight of national lenders to the European Central Bank it did, after all, represent the most ambitious integration scheme since the creation of the single currency.

But the architects of Europe's nascent banking union know that it is house half built. Common supervision must be followed by a common means for winding up troubled lenders, and a common financial backstop for dealing with a banking crisis.

"Getting them to agree to transfer powers was hard enough," said one senior official closely involved in the four months of gruelling talks. "Resolution is inevitably about money and that will be a different order of difficulty."

The next stop on the road to banking union is to align, within the next six months, the indispensable national rules covering everything from bank capital requirements to the emergency powers national governments have to deal with ailing banks.

This is the so-called "single rule book". But it remains at national level, providing a common language across 27 member states, rather than a centralised system.

There is dispute about how quickly to push forward with much more ambitious plans for a European resolution authority and backstop. France and Germany are already at odds over timing and scope. It is the beginning of a long and contentious fight.

Without a European framework for handling failing banks, critics argue the ECB would be hamstrung. Supervision would be centralised, but the bill and ultimate authority to wind up a bank would remain national. "That simply will not work, we just have to hope it is not tested," said one EU official.

More optimistic diplomats see the supervision breakthrough as a turning point. "Psychologically we crossed a line," said one senior eurozone official. "We managed what was thought to be impossible. The choices, in a way, now become much easier, the logic is remorseless."

France wants the European Commission to bring forward talks on setting up the EU resolution regime. Even fiscally conservative Finland is open to the idea.

"We don't want to stand on the brakes," said Jyrki Katainen, Finnish prime minister. "If the commission wants to start preparing a common resolution mechanism, that's fine with us."

Berlin is less convinced. Before new initiatives, it wants progress on existing national reforms. It is not sure a common European resolution framework is urgently necessary. And it is not satisfied a common backstop or resolution fund is required. It is as reluctant as ever to share financial risk at a central level.

This opens a familiar debate for Brussels, echoing the question of whether the eurozone's €500bn bailout fund should recapitalise banks directly. The crisis-fighting tool was one of the main benefits from central bank supervision. But Germany wants to avoid raising "dangerous" expectations that it will be used.

Indeed, one reason for the ECB supervision start date being delayed to March 2014 or later was to avoid such requests. Wolfgang Schäuble, German finance minister, said direct recapitalisation would be legally possible, but said it was "a relatively unlikely scenario." It would, of course, require approval of Germany's government and its parliament.

More important for Berlin is ensuring the ECB manages the Herculean task of making central supervision a reality for 200 or so banks by 2014. That means setting rules, hiring staff, harmonising approaches and deftly managing relations with prickly national supervisors.

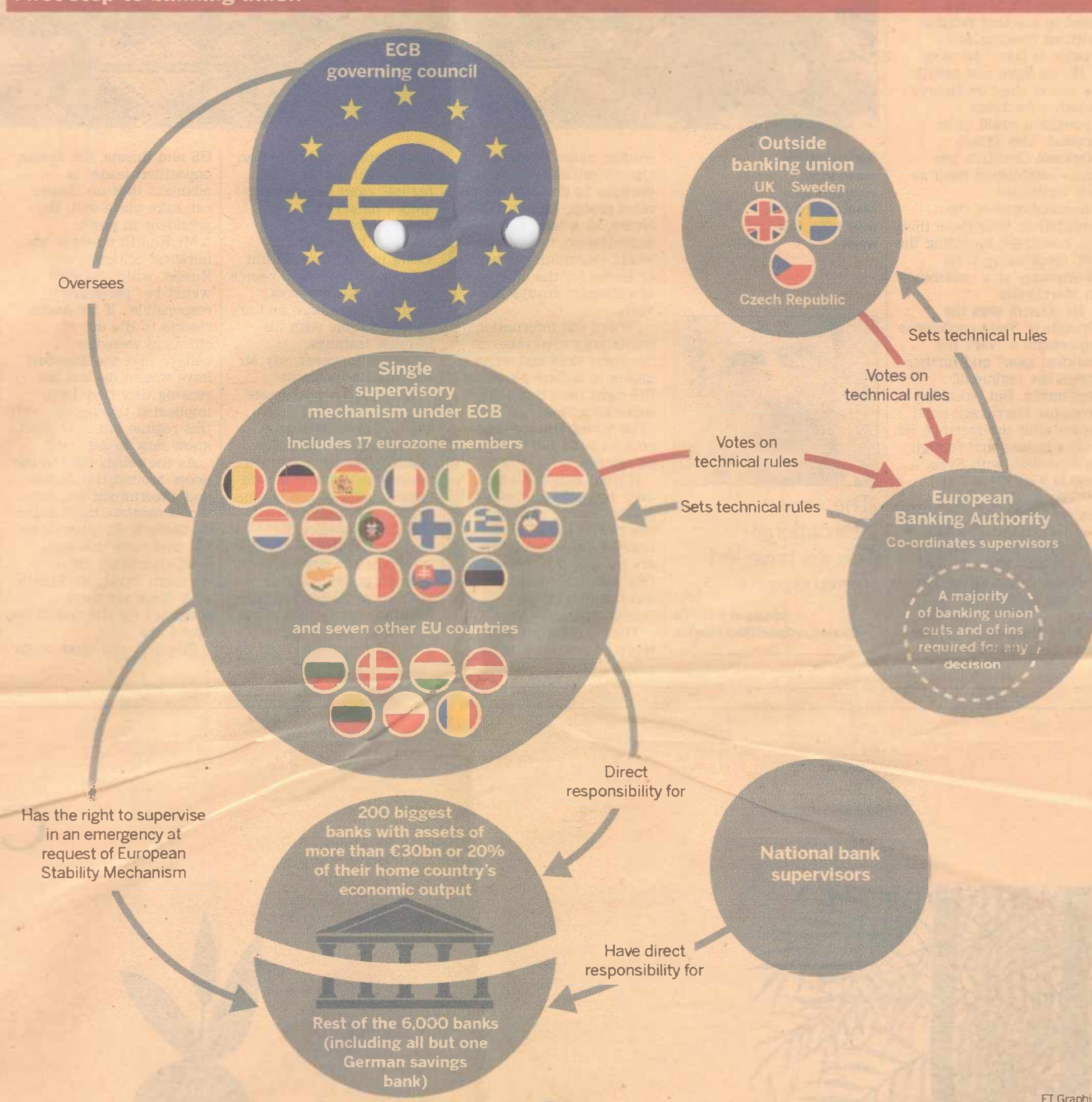
Looming large over the debate are the Bundestag elections. German opposition leaders are already accusing Angela Merkel, German chancellor, of deliberately delaying ECB supervision to 2014 to keep the question of resolution out of next year's campaign.

Sigmar Gabriel, chairman of the centre-left Social Democratic party, said the chancellor was "playing hide and seek" over banking union by agreeing the principle of recapitalisation while delaying its use beyond 2014.

Frustrations are growing in the EU, too. Enda Kenny, Ireland's prime minister, said EU leaders were "quite clear" that the option of recapitalisation followed a deal on supervision. "It is important the citizens of the union actually see decisions being made and followed through," he said.

Additional reporting: by and Gerrit Wiesmann in Berlin and Peter Spiegel and Jamie Smyth in Brussels

First step to banking union



FT Graphic

Sigh of relief greets 'major step forward'

Europe's banks breathed a sigh of relief yesterday, praising the agreement on banking union, **write Patrick Jenkins and Brooke Masters.**

Simon Lewis, head of the Association for Financial Markets in Europe, the main lobby group for investment banks, called the deal "a major step forward and also an essential element in resolving the eurozone crisis . . . It is essential that this momentum is maintained."

Banks hope union will reverse the disintegration of the European single market that has accompanied the crisis, with national regulators protecting domestic interests at the expense of cross-border business.

"What has been announced by the EU finance ministers is a European Banking Union-lite," said Ronit Ghose, an analyst at Citigroup, pointing out that the two other pillars of banking union, a resolution regime and a regional deposit guarantee system, will be trickier challenges.

Bob Penn, a partner at law firm Allen & Overy, said: "In the words of Churchill, this represents not so much the beginning of the end as the end of the beginning.

We will now see a furious scramble towards implementation."

The German savings banks, which wanted to stay under national supervision, said they would have preferred a higher cut-off above which central supervision kicks in, but the €30bn figure means just one savings bank, Hamburg's, will fall into the European Central Bank's ambit.

Germany's private banks were much more welcoming, saying the outcome was close to their wishes, retaining proportionality and not overburdening smaller banks.

EU seeks to peg bankers' bonuses to salary

By Alex Barker in Brussels

Bankers' bonuses in Europe would be capped at two times fixed salary under a tentative EU agreement that would mark the most severe crackdown on pay since the 2008 financial crisis.

The European Parliament and negotiators for member states drafted a deal in Strasbourg yesterday that would impose a 1:1 bonus to salary ratio, which can be increased to 2:1 with the backing of a supermajority of shareholders.

The draft terms, which would apply to all banks operating in the EU, will shock the industry, which was bracing itself for a fixed cap of some kind but was relying on the UK and Germany to apply pressure for relaxing the limit.

It is unclear whether the proposed compromise will win formal backing. Some diplomats think that Cyprus, which is brokering the deal on bank capital rules on behalf of EU member states, went beyond its mandate and is unlikely to secure approval.

MEPs nevertheless expressed confidence that a deal on legislation to implement the Basel III bank capital accords, which include the restrictions on bonuses, could come as soon as next week.

> 'There is a bonus compromise on the table that the parliament is prepared to go for'

"An agreement is within reach," said Philippe Lamberts, one of the lead MEPs in the negotiation. "There is a bonus compromise on the table that the parliament is prepared to go for.

"But it already represents a very considerable concession by the parliament," he added, referring to MEPs' demanding a ban on all bonuses exceeding salary. "This compromise will mean these executives and traders will still be able to treble their base salary."

However, other senior figures involved in the talks expressed serious doubts that the list of outstanding issues would be resolved this year. That would mean Ireland will assume responsibility for negotiating the resulting compromise.

Britain will lead calls for the bonus cap to be scrapped or raised significantly. But its strong stand is relatively isolated in the European Council, especially because ministers are reluctant to suffer political fallout from defending the high pay of highly paid bankers. A final decision can be taken by majority vote.

Berlin has put out counterproposals that would impose a strict cap on cash payments and looser restrictions on deferred payments. The European Parliament, by contrast, is demanding an absolute cap on total pay relative to fixed salary.

Banks warn that imposing such stringent restrictions will force them to increase fixed salaries, a move that could backfire and increase financial risk.

Europe's centre-right leaders join Berlusconi in urging Monti to stay

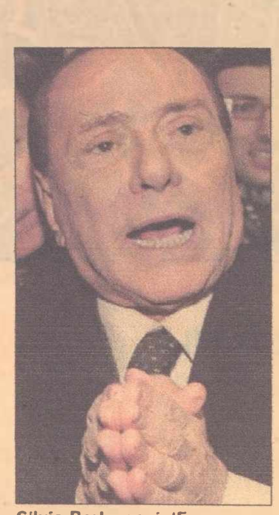
By James Fontanella-Khan and Peter Spiegel in Brussels

Leaders of Europe's centre-right parties, including some of the continent's most powerful prime ministers, have urged Mario Monti to run for prime minister in next year's Italian election, Silvio Berlusconi has told the Financial Times.

The former Italian prime minister, who precipitated Mr Monti's resignation as head of a technocratic government last week by announcing he would seek the premiership, said leaders expressed their support during a closed-door meeting that both men attended in Brussels before the EU summit yesterday.

"Everyone [at the meeting] asked him to continue," Mr Berlusconi said after the meeting of the European People's party, the EU's centre-right grouping. "All of us have asked him to stay . . . It is clear that the EPP is keen that Italy doesn't fall in the hands of the left like in France, where everyone is desperate and is running away because of the high taxes."

Senior German officials denied that Angela Merkel, the German chancellor, who attended the meeting along with about a dozen other European heads of government, specifically asked Mr Monti to run. "She wouldn't put him in a situation like that," said one, adding that Ms Merkel had simply repeated that it was up to the Italian people to make their choice.



Silvio Berlusconi: 'Everyone asked [Monti] to continue'

Other officials in attendance said no explicit request was made. But Finland's Jyrki Katainen, one of the centre-right prime ministers present, said his fellow leaders expressed support for Mr Monti, an account confirmed by several others there.

"It is not a secret that Monti's colleagues here are supporting him very strongly or what he has done," said Mr Katainen. "If they manage to find an alliance of moderates behind Monti, it would be very good."

Participants in the meeting, which Mr Monti agreed to attend only at the last minute, said Mr Berlusconi reiterated an offer made on Wednesday to stand aside if Mr Monti decided to run. But they added that Mr Monti gave no indication if he would do so, and leaders said they did not press him.

"Monti didn't say anything," said Mr Katainen. "But we didn't want to put him in the hard place where he should say something, because he obviously didn't want to say anything."

Although the pre-summit caucusing of centre-right leaders is a regular occurrence, Mr Monti has never attended in the year he has been prime minister.

Mr Monti attended with the full knowledge that Mr Berlusconi would be in attendance, aides said. The media tycoon and former prime minister is still head of Italy's primary centre-right party, People of Liberty, and was invited as the party president.

The men each addressed the group and sat a few seats from each other. Aides said the two men did not have a separate bilateral meeting, however.

Officials in attendance said they believed that Mr Monti's attendance was a signal he was preparing to run, but his aides insisted he had made no decision.

"Monti's decision to come to the EPP is a positive sign," said Mr Berlusconi. "If Monti doesn't run, if we can't put together all centre-right parties, the centre left will win. Monti is a personality that can unite all the moderates in Italy."

In the interview, Mr Berlusconi said he first offered to stand aside and allow Mr Monti to lead Italy's centre right two months ago. "Now let's hope," he said. "I know it's hard for him because, for somebody used to being supported by everybody, it can be diminishing to take one side."

Additional reporting by Quentin Peel in Brussels

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'Whatever it takes': the Italian determined to save the euro

Person of the Year With two short, unscripted sentences, ECB president Mario Draghi turned the tide in the three-year-old eurozone crisis. *By Lionel Barber and Michael Steen*

Forward thinker: Mario Draghi, head of the European Central Bank, says 2012 will be remembered as the year when the vision for the euro was relaunched

Martin Leissl

On the eve of the 2012 Olympic Games, Mario Draghi found himself in the august setting of Lancaster House in London's royal district. He was a panellist at an official event intended to drum up foreign investment to the UK, but the president of the European Central Bank had weightier matters on his mind.

Europe's single currency was disintegrating amid soaring borrowing costs in Greece, Spain and Mr Draghi's native Italy. Speculation that the eurozone was heading for a break-up, with incalculable financial and political consequences, was rampant. It was time to draw a line in the crisis.

"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro," Mr Draghi said, pausing for effect. "And believe me, it will be enough."

Mr Draghi's advisers had been forewarned that he was preparing to make a forthright statement, but none had been apprised of the precise wording. In retrospect, the July declaration – which in effect dared financial markets to challenge the ECB's unlimited firepower – may well be seen as a turning point in the three-year-old crisis.

"What I thought was that the markets should know what our stance was," Mr Draghi, 65, recalls in an interview with the Financial Times in his office on the 35th floor of the ECB's Frankfurt headquarters. Asked if he had rehearsed his pause, he laughs. "No, I'm not really that theatrical."

The impact of Mr Draghi's two brief sentences was immediate – and durable. His central role in the euro crisis – the biggest story of 2012 – has earned him the FT's vote as Person of the Year. Other figures, notably Chancellor Angela Merkel of Germany and Mario Monti, the outgoing reformist prime minister of Italy, have both played vital parts. But Mr Draghi has been the leading protagonist, insistently prodding governments and central banks to support the measures necessary to preserve the euro.

Mr Draghi draws his skills from a varied career: central banker, economist, commercial banker (Goldman Sachs) and public servant-cum-diplomat. He is, above all, a strategist who reflects deeply upon problems and, once his mind is made, is hard to budge. He has been somewhat bolder than his predecessor, Jean-Claude Trichet.

Under Mr Trichet, the ECB responded faster than the Bank of England and the US Federal Reserve in the first phase of the global financial crisis in the summer of 2007, when credit markets froze over; but the Frenchman later found himself hemmed in by the Bundesbank, the German central bank hostile towards the twin sins of debt and inflation.

Mr Draghi took over from Mr Trichet just over a year ago. He told friends at the time that it was far from guaranteed that he would succeed, notwithstanding the formidable political will behind the single currency. He too was worried about the Bundesbank and German public opinion in general. But he was determined to give it his best shot.

Fighting the 'tail-risks'

His first move was to introduce the longer-term refinancing operation for banks. As he says, the LTRO (which unfolded in two phases in December 2011 and February 2012) removed the possibility of a banking crisis caused by a lack of funding. By providing short-term liquidity for up to three years, the ECB helped depress spreads in the sovereign and credit derivative markets.

Although the initiative calmed market worries about banks, it did not tackle the other major faultline in the eurozone: the widening differential in borrowing costs between stricken debtor countries (Greece, Spain, Italy, Cyprus) and creditor countries led by Germany. By the spring of 2012, these spreads had become life-threatening, exacerbated by "tail-risks" that the eurozone would fall apart, with Greece being the first to exit.

Faced with this catastrophic scenario, Mr Draghi and the ECB staff came up with a new lifeline: outright monetary transactions. Even though none of the debtor countries has so far applied – preferring to avoid the fiscal conditions they would be obliged to follow – the results have been a dramatic fall in borrowing costs for peripheral countries and a renewed confidence that the euro can and will survive.

Under the OMT programme, the ECB promises to step in and buy unlimited quantities of bonds with a maturity of less than three years of any country with a distressed debt market. Countries must apply for help from the eurozone's rescue fund, the European Stability Mechanism, and agree to its fiscal conditions. Equally important, before it buys, the ECB must satisfy itself that borrowing costs are being skewed higher by speculation of a euro break-up.

The OMT refines the Trichet-era bond-buying programme, the securities market programme (which also drew fierce German criticism). But whereas SMP was limited and unconditional, the OMT is conditional and unlimited – a crucial innovation that has led to a ferocious backlash in Germany orchestrated in large part by the Bundesbank and its president, Jens Weidmann, who also sits on the ECB governing council.

Mr Draghi is far too much of a diplomat to criticise Mr Weidmann by name, but in the weeks running up to the September announcement of the OMT programme, he took the unprecedented step of identifying the "Buba" president as having reservations about the plan. Mr Weidmann went on to cast the sole vote against it and has subsequently embarked on a public campaign in Germany, at one point citing Goethe's Faust, where Mephistopheles encourages a heavily indebted Holy Roman Emperor to print money not backed by a commodity such as gold, and thereby stokes hyperinflation.

The image, of course, summons up the ghosts of Germany's 1920s past. The fact that the ECB – moulded in the 1992 Maastricht treaty on the lines of the inflation-fighting Bundesbank – is now committed to buying bonds of heavily indebted countries is regarded in Germany as akin to betrayal. Bild Zeitung, the German tabloid that once was so enamoured with Mr Draghi that it presented him with a Prussian spiked helmet, now thunders that the ECB has written "a blank cheque" to debtor countries.

One powerful voice, however, has remained silent: Ms Merkel. Mindful of German public opinion ahead of the September 2013 election and the risks of antagonising the respected Bundesbank, the German chancellor has trodden a fine line. She has been adamant that financial aid to debtor countries must be conditional. They must "do their homework" in terms of structural reforms and reducing budget deficits. But faced with the threat of a euro break-up, she has tilted towards Mr Draghi.

Mr Draghi insists he did not prepare the ground for OMT with the chancellery in Berlin and did not consult European capitals before his "whatever it takes" pledge. "The decision was taken in total and full independence," he says.

Crucially, however, Mr Draghi did persuade Ms Merkel and fellow executive board members – notably the Dutch and Finnish central bank chiefs – that the ECB bond-buying programme was both conditional and within its mandate. It is intended, in his words, to fight "financial fragmentation" within the eurozone. Pre-OMT, speculators and short sellers enjoyed a near one-way bet: driving up bond yields in debtor countries on the notion that the euro would break up. The process was a vicious circle.

Mr Draghi's ability to win the confidence of Ms Merkel and, at least for now, the financial markets is impressive. Some credit his steely resolve with the emotional hardship he endured in his early years. Born and raised in Rome, both his parents died while he was still a teenager, leaving him in the care of an aunt. He attended a Jesuit school and La Sapienza University in Rome, and then went to the Massachusetts Institute of Technology for his economics PhD.

Diplomatic resolve

Years later, after a decade at the Italian Treasury, he headed the Bank of Italy, where he spent much of his tenure dealing with the slippery figure of Silvio Berlusconi as prime minister. In Italy, the central banker's political skills are much admired. "Whereas Mario Monti is a Catholic, Mario Draghi is the Pope," says a friend of both men.

So, will Mr Draghi go down in history as the man who saved the euro? "This year will in my view be remembered as the year when the long-term vision for the euro and the euro area was relaunched," he says. But other actions were also vital, notably the June European summit. "For the first time in many years, [leaders] laid out a medium-term vision for a genuine economic and monetary union made by four pillars: fiscal union, the so-called banking union, the economic union and political union."

This week's agreement on banking union and a bigger supervisory role for the ECB is a further step. More broadly, he says, structural reforms are helping to reduce current-account deficits and narrow competitiveness gaps between euro-area countries. Even though the ECB cut its growth forecast for 2013, Mr Draghi insists austerity can work.

"To give up now, as some suggest, would be tantamount to waste the great sacrifices made by the citizens of Europe," he says. He also has no time for suggestions that surplus countries such as Germany should inflate away some of their competitive edge. "Inflation is not a policy tool; one does not toy with inflation."

Mr Draghi concedes that the crisis has been marked by governments feeling less urgency to act the moment market pressure recedes. The OMT programme, paradoxically, feeds into the vicious circle. Yet Italian two-year bond yields have fallen from a July peak of 5.3 per cent to just over 2 per cent. Their Spanish equivalents have fallen from more than 7 per cent to just under 3 per cent.

Overall, the sense is that Mr Draghi – whatever his concerns about future threats to the euro such as the uncertainty in Italy after Mr Monti's announced departure or popular unrest in Greece – firmly believes in the steady progress of Europe and the ever greater pooling of sovereignty among eurozone nations.

Towards the end of an hour-long interview, he produces a printout of a quote from Zygmunt Bauman, the Polish sociologist: "Each [European] house is much more at risk of losing its specific identity if it is exposed without protection, that is without this European shield."

The argument is that heavily indebted countries have already lost a part of their sovereignty because they have lost power over their economic policies. "Sharing common rules for them actually means to regain sovereignty in a shared way rather than pretending to have a sovereignty they've lost a long time ago," Mr Draghi says.

That might take some more explaining in Germany. Has he won over public opinion? "I don't know. But I know we have a duty to explain, and we are really working very, very hard on that front."

Was there ever a time in 2012 when, amid all the pressure, he had a sense of relief? He smiles. "Was there such a moment?"

In any case, dwelling on the past is not what animates Mr Draghi. "That's not the way I function. I look forward."

Mario Draghi in his own words...

'I am what I am, really. I think one thing that is required for this job, for me and my colleagues in the governing council, is that you have to think with your head, and external pressures do not really have a role to play in your decision-making'
September 2012, in response to a question on how close his monetary-policy views were to those of Jens Weidmann, president of the German Bundesbank

'I would not identify with this caricature of it being a southern cabal or an Italian thing'
September 2012, on accusations he was conducting a "lira-isation" of the eurozone

'You might have seen that I am not the only central banker who is a member of the Group of Thirty. Just to name a few: my predecessor Jean-Claude Trichet and Mervyn King, who were not Goldman Sachs bankers; Governor Zhou [Xiaochuan] of China, who was not a Goldman Sachs member; Masaaki Shirakawa, who was not a Goldman Sachs member; and Mark Carney, who was a Goldman Sachs member'
December 2012, on accusations in the German media that his membership of the Group of Thirty, which gathers together central bankers and bank executives, and his past at Goldman Sachs meant that he was too close to private banks

...and what others say about him

'Mama mia, inflation is just as much a part of life to Italians as tomato sauce and pasta! Signore Draghi may try to deny it as much as he likes'
Bild Zeitung, February 2011
(The newspaper later changed its position to back Mario Draghi)

Mr Draghi 'is on the best path towards going down in history as the money forger of Europe'
Alexander Dobrindt, secretary-general of the Bavarian Christian Social Union, sister party of Angela Merkel's CDU, accusing the ECB chief of turning the institution into an "inflation bank" in an interview with Bild am Sonntag in August 2012

'Draghi's statement to do "whatever it takes" really changed the crisis to where we are today. It did three important things. It caused spreads on government bonds to narrow; it allowed stock markets to bounce back; and it slowed, and in many cases stopped, capital flight from the periphery. That statement was extremely powerful and allowed us to get [to] where we are today'
Jay Ralph, chairman of Allianz Asset Management

5.3%
Italian two-year bond yields before Draghi's speech

2%
Italian two-year bond yields now

6.8%
Spanish two-year bond yields before Draghi's speech

2.8%
Spanish two-year bond yields now

ECB chief's life story

Born in Rome on September 3 1947, Mario Draghi's father was an official at the Bank of Italy, his mother a chemist. After his parents died during his teenage years, Mr Draghi and his siblings went to live with an aunt. He attended the Istituto Massimiliano Massimo in Rome, a Jesuit school.

Having earned a doctorate in economics from the Massachusetts Institute of Technology in 1977, in the 1980s he taught at the University of Florence and served as an executive director at the World Bank. In 1991 he was named head of the Italian Treasury, where he earned the nickname "Super Mario" for steering the country away from default. From 2002 to 2005 he worked at Goldman Sachs, and from 2006 to 2011 was governor of the Bank of Italy as well as chair of the Financial Stability Board. He was appointed president of the ECB in November 2011.

Married with two children, Mr Draghi used to enjoy climbing but now runs and plays golf.

On the web

Lionel Barber interviews Mario Draghi, president of the European Central Bank. See the video at **www.ft.com/draghi**

Banking union

They love their overnight bargaining sessions in Brussels. The latest episode has resulted in the first step on the road to a banking union, with the European Central Bank to take over the regulation of about 200 banks, and national regulators to retain responsibility for the other 5,800 or so. The deal is not done yet. The European parliament still has to give its approval, and even after that it might take until 2014 to get the system working. That could be too late for some Spanish lenders, for which the system is a precursor to direct access to Europe's €500bn bank rescue fund.

Nevertheless, it is a good start. For the banks, the agreement offers the hope that European regulatory uncertainty may, finally, be on the way to some sort of conclusion. Common rules and oversight would ease the administrative burden, and could stimulate a recovery in cross-border lending.

But the agreed system is far from perfect. It is possible, for example, that a bank could find itself with some subsidiaries that are inside the EU, the eurozone and the banking union; some that are inside the EU and the banking union but not part of the eurozone; and some that are inside the EU but not part of the banking union or the eurozone.

And this is just the relatively straightforward part of the banking union. Two more contentious parts – resolution of failing banks and a common deposit guarantee scheme – are still on the drawing board. Both could end up being expensive for the banks. Analysts at Barclays estimate that contributions to a resolution fund could cost the industry €40bn during the next decade. Proposals on harmonised national deposit guarantee schemes, meanwhile, could cost another €40bn, and that is before a pan-European scheme has even been discussed. For banks, it seems, the longer the politicians talk, the more the costs rise.

Renault

Needs must. Renault's coffers swelled by €1.5bn yesterday as the French carmaker placed out its remaining holding – 6.5 per cent of the equity and 17.2 per cent of the voting rights – in Volvo. Disposal of this stake, acquired when Renault's truck business was sold to the Swedish company in 2001 and reduced in 2010, looks timely. It capitalises on a