

**All papers national and local**

21 October 2008

Dear Sir

Perhaps you will permit me a few lines, as a professional financial economist to respond to articles by professional politicians giving their views on the recent credit crunch. In 2004 after the ENRON crisis the EU endorsed a new mark to market rule. They are known as Basel II in the financial services industry, it is embodied in two directives 2006/48 and 2006/49. I will not bore your readers with the details but broadly they insist on a 'daily solvency statement'

This means the distinction between bankruptcy and illiquidity is viewed as the same thing (they are not). Instead of the calm 'behind the scenes' approach of yesteryear, there is now no flexibility in the system, paramount in banking. The EU failed because speed is of the essence in banking which relies on confidence. The national interest predominated and finance ministers broke the existing EU rules to get on with the job in hand.

Waiting for 27 countries to agree on anything would have taken over a year, even Charlie Macreecy arch Europhile finance commissioner knew he could not wait.

Moreover unlike 'the Fed', the EU has no lender of last resort. The Euro is a political currency. The EU is part of the problem not the solution. The terrible consequence of membership of the Euro would be disastrous for the city which supplies 40% of UK GDP.

Yours sincerely

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