Wall Street and the administration of Barack Obama have often had a fraught relationship since the financial crisis, during the negotiation of the 2010 Dodd-Frank legislation and its aftermath.

But for the schism to extend to US negotiating objectives in looming trade negotiations with the EU is unusual. It has put American banks in the strange position of backing Brussels' approach to the talks rather than Washington's.

"The US Treasury is resisting any kind of regulatory discussion [and] everyone else is aligned on the other side," said a US banking executive. "The Europeans consider it to be a priority and they're unified."

Tony Fratto, a former US Treasury official under George W Bush, now a partner at Hamilton Place Strategies, a consulting group, said the traditional view adopted by the US Treasury had always been that the more rules could be harmonised, the better.

"Treasury has always fought to have financial chapters because it is beneficial to have them," he said.

The dispute comes amid increased transatlantic regulatory tensions over Washington's moves to insist US rules should trump those in other jurisdictions, most controversially with regard to derivatives and requirements for foreign banks.

Proponents of a financial component to the trade talks with the EU say that a mechanism for mutual recognition of different regulatory standards, or a system to mediate disputes, could help ease recent friction.

The Obama administration has been deeply skeptical of this approach, worrying that it could be used as a mechanism to halt and undermine financial reform on both sides of the Atlantic.

In May, Lael Brainard, the Treasury undersecretary for international affairs, told Congress that US banks competing globally would benefit from the administration's approach, not be hurt by it.

"Our focus . . . is to not give our European counterparts any excuse to slow down the implementation that they have already committed to in areas like bank capital, on resolution, on cross-broder derivatives, or clearing," she said. "We want to make sure that we see implementation on timeframes that will put our players, our market participants on a level playing field."
Wall Street rejects that view.

"There's a sense incorrectly that the US is the only jurisdiction that is moving forward with new financial regulations and that other countries can't be trusted to adopt regulations similar to the US, and yet the Europeans have and are," said Ken Bentsen, president of the Securities Industry and Financial Markets Association, a top US financial services lobby group.

"Somehow you want to enter into a trade agreement across all these sectors . . . and yet one side is saying, 'we don't trust you on that, or we don't believe you are developed at the appropriate stage'. That's hard to believe and not a very credible argument in our view."

Brussels insists not including financial regulation amounts to "financial protectionism". The failure to co-operate, said Nadia Calviño, a leading EU official handling financial services, would result in a "tower of Babel" of overlapping and occasionally conflicting financial rules.

Brussels' goal, backed enthusiastically by the UK, is to agree a solid system of "equivalence", where rules are convergent enough to allow regulators to trust each other to enforce them in their own patch.

European officials do not think the trade negotiations should be used to tackle all the contentious issues. Instead, a UK official said, the negotiations should aim "to put in place a framework for greater regulatory coherence and dispute resolution for the future".

Martin Baily and Douglas Elliott, two economic policy analysts at the Brookings Institution, a Washington think-tank, have added their voice to the calls for the inclusion of financial regulation in the talks.

At a recent conference organised by Bruegel, a Brussels think-tank, Mr Elliott said the US Treasury seemed concerned that "financial stability would be traded for beef quotas".

But all of those voices are coming up against domestic political pressures for the Obama administration to hold the line on the exclusion of financial regulation. Democratic politicians, such as Sherrod Brown, the Ohio senator, and Maxine Waters, the California congresswoman and her party's top member on the House financial services committee, have asked the Obama administration to stick to its guns. So too have liberal lobby groups.

"Sensitive financial regulations should not be determined, much less dismantled, by a small group of unelected trade negotiators who are being advised by the very banks that led us into financial crisis," said Ben Beachy, research director at Public Citizen's Global Trade Watch, a liberal group.