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**A framework for the 21st century -
the new global regulatory agenda in
financial services**

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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Introduction

Ladies and Gentleman,

Thank you very much for your invitation to address this prestigious institution with its long tradition in international affairs. Even though I am the European Union's Commissioner for the internal market, much of my work involves external aspects of our policy. My belief is clear: open markets work, closed markets do not.

We are at a fork in the road. As international economic integration accelerates, the concept of open markets and a globalising economy have come under attack. Of course there are legitimate concerns about globalisation. Few dispute that there have to be proper structures, democratic and balanced, which can help developing and emerging economies in particular. There is also a clear need for appropriate forms of governance. We need to manage globalisation. Markets, especially financial markets, are based on one thing in particular: trust. Trust is at its strongest, and markets work best and are confident when there is transparency, reliable information, legal certainty and carefully calibrated levels of consumer and investor protection.

However, there are those who abuse these arguments and try to undermine the whole concept of economic freedom. There is the tendency to blame each and every economic problem on globalisation and the competition we face from abroad. I am not disputing that many industries go through difficult and often painful transitions.

But some seek to shift the blame abroad. The doomsayers bleat: it is the fault of globalisation. Foreign take-overs. Cheap imports. Migrant workers. In many of our Member States you can hear these arguments. The debate, which preceded the failure of the referenda on the EU Constitution in France and the Netherlands was mainly about these issues. Only three of the so-called old Member States have fully opened their labour markets to citizens from the new members. Lately we have also seen a few attempts by governments or regulators to favour uncompetitive domestic mergers over efficiency enhancing cross-border ones.

But protectionism is not the answer. It never was historically – and led to great tension between nations. And it isn't now. A simple correlation of the degree of openness of countries' economic systems with their economic growth and development will show that openness pays. For people first. With Jobs. With thriving businesses. By releasing human energies – not capping or constraining them.

In Europe in particular, we have been faced with a challenging economic situation. High unemployment, low growth, high government debt, low birth-rates – not an optimal mix.

But these problems are not caused by foreign competition. They are caused by structural problems in the labour, goods and services markets. Foreign competition just shines a very bright light on what has been there for quite a while. So instead of trying to erect new barriers to the outside, we need comprehensive structural reforms internally that will free our economic energies. To compete more. To give people freedom and space to innovate and take risks.

It is not just Europe where protectionism rears its head. Even though the US has higher growth and lower unemployment, there are also debates here about restricting outsourcing or Senate initiatives to impose tighter controls on foreign investment. A careful eye needs to be kept on the effects of the Exon-Florio bill.

The real danger is that negativism about globalisation and enhanced competition can be mutually reinforcing both in the EU and the US - with each side pointing the finger at the other and using it as a cheap excuse for its own mistaken policies.

All this rings an unpleasant bell for me. As a politician in Ireland I was a witness to several decades of policies that were based on the idea that prosperity could only be achieved by keeping the chill winds of international competition out. I never believed in it. But Ireland learned its lesson – although it took a major economic crisis to wake us up. However, within a decade a country that for centuries had seen mass economic emigration was transformed into the booming destination of many immigrants.

Whilst it previously lagged well behind the OECD average in GDP per capita, Ireland is now more than a fifth above.

This is why I defend the idea of open and competitive markets vigorously and will fight the protectionists tooth and nail. And I fully agree with what President Bush said in his State of the Union Address: "The road of isolationism and protectionism may seem broad and inviting – yet it ends in danger and decline".

Let me outline my programme for more open markets in Europe, across the Atlantic and globally.

I. Completing the Single Market for Financial Services in Europe

Over the last few years the foundations for an integrated financial market in Europe have been laid. Here there is good news. We are now seeing real progress on the ground. A large and well-functioning Euro bond market has been created. International issuance in Euros is increasing exponentially – almost reaching the level of the US. Merger and acquisition activity is high. IPOs and private equity are strong. We don't have policies that dissuade outside investors from investing in our capital markets. Today EU companies have a much larger range of financing options in the EU than before. Our equity markets are solid, financial market players are realizing exceptionally good profit levels. Pan-European financial business is developing – although not fast enough.

Since 1999, almost half of all merger volume in the non-financial sectors in Europe was cross border. In the financial sector this figure was only one fifth, suggesting sub-optimal market functioning. Only a Europe which is competitive internally will be so externally. Europe has 450 million consumers – more than one and a half times the number of the US. To reap the full economies of scale of this huge market, companies must have the possibility to find optimal organizational structures and sizes. And they should be able to do that on the basis of sound and rational economic reasoning – and not by adapting to restrictive rules and biased supervisory practice.

I have therefore made clear that tackling obstacles to cross-border consolidation is crucial. Don't get me wrong, I do not favour specific market structures, nor do I follow an industrial policy credo to create European champions. I do not believe that governments should tell people in the market where to go and what to do. We have neither the information nor the skills to substitute the role of entrepreneurs.

Instead, our role is to sever the knots which tie up business and allow them to take decisions themselves. I am working towards simplifying supervisory structures and requirements in Europe. Common reporting requirements, better home-host cooperation, convergence of supervisory practice across all 25 Member States. Not an easy process and no overnight quick fixes. But a practical agenda that will pay off.

I will also vigorously attack any misuse of supervisory powers or political interference in the process. The European Commission is in the process of drawing up amendments to the relevant insurance, banking and securities directive dealing with cross-border mergers and acquisitions. There are legitimate reasons for which a national supervisor should have the right of review: suitability of potential acquirers, protection of investors and financial stability. But we have to minimize the scope for abuse of these rules for less well meaning purposes. In this respect, I will also closely watch the national implementation of the Take-over Bids directive in the EU and go after any unsavoury practices.

II. The Transatlantic Dimension

What is true within Europe is also true in our relationship with the US. For many years people thought that all economic issues between countries were dealt with by trade talks and trade agreements. Tit for Tat. Reciprocity. Cross-sectoral linkages etc. In an age of global enterprise that is no longer the right way forward. When US legislators cough, EU companies will sneeze – and vice versa. Rules do not stop at our borders any longer, they have repercussions way beyond them. Look at Sarbanes-Oxley, or the EU Financial Conglomerates Directive, or accounting rules.

So how do we deal with cross-border spillovers of legislation? What is important is to work upstream, informally and in a non-conflictual way to find mutually acceptable solutions that take into account the differences in our regulatory structures and histories. To reduce compliance cost for business by eliminating duplicative frictional requirements.

This is the agenda the European Commission, the US Treasury, the SEC and the Federal Reserve have been pursuing in the EU-US Financial Markets Regulatory Dialogue over the last few years. Close cooperation, upstream information, early detection of regulatory conflicts and a mutual commitment to try to find practical and efficient solutions.

During my visit here this week I hope that we will make further progress on some of the issues which are of concern on both sides of the Atlantic at the moment. They are issues which form the nuts and bolts of a transatlantic capital market. Let's call it the A, B, C, D agenda: Accounting, Basel II, Collateral and Deregistration:

- a. In my talks with SEC Chairman Cox I will be looking for further agreement on how we can eliminate accounting reconciliation requirements in the US and in Europe. When I was last here, the SEC boldly issued its accounting roadmap, stating that the US reconciliation requirement will be dropped by 2009 at the latest. Now, we have to take stock and agree on the remaining steps. In my view, full convergence of standards cannot be a prerequisite for the elimination of the reconciliation requirement. Instead, we should make sure that our standards are understandable to investors on both sides of the Atlantic. We also need to establish a new level of cooperation on the implementation of our standards and make sure that no conflicting decisions are taken.

- b. Basel II will equip banks with state of the art risk allocation and prudential rules. The EU has already adopted the Capital Requirements Directive to implement fully the Basel accord by 2008. In the US implementation is progressing but will take one year longer, until 2009. Implementation is of course partly a domestic issue – but again, differences in timing and rules have repercussion for domestic and foreign industry. It is important that differences in timing or modalities of implementation will not lead to additional burdens for industry, on either side.
- c. The EU only recently adopted its directive on Reinsurance – eliminating the small remaining number of national collateral requirements for cross-border reinsurance business. In our view this is an excellent opportunity for US insurance regulators to take the initiative too. We are working with the National Association of Insurance Commissioners (NAIC) towards a roadmap that would define the steps and set a target date for ending collateral in the US.
- d. Finally, deregistration. Again, I favour open capital markets where companies decide on business grounds where they want to raise capital and when they wish to leave a market. This is as valid for the US capital market as it is for ourselves. Inward IPOs have dried up in the US in the last few years. Part of this is due to Hotel California rules, which mean they can check in but they can't check out. Just before Christmas, the SEC came forward with its proposal for a reform of deregistration rules in the US. We much appreciate that the SEC has delivered a proposal on this important issue. The proposal covers a lot of the issues which have been raised by European companies and it has the potential to make a substantial contribution to a more openness. But preliminary numbers also show that even with the new proposal only a small fraction of European companies could deregister – even they are subject to first-class home-country reporting requirements. I will be discussing this issue with the SEC and hope that a solution can be found.

III. A global regulatory agenda

EU-US cooperation in services industries and financial markets plays a central role on the global stage. The EU and the US financial services industries lead the way worldwide. EU-US regulatory cooperation should do so too. After all, 70-80% of the world's capital markets are tied up in our economies.

Jointly, we have a window of opportunity to facilitate the smooth integration of China, India, Brazil and others on the world economic stage. The EU and the US should lead by example and show how open and competitive markets with sound standards of investor and consumer protection can deliver a thriving transatlantic financial market place. In accounting, in auditing, in our securities and other markets the EU and the US can make a special contribution to the emerging global regulatory system. If we cannot resolve our differences, what sort of example are we giving to the others? This is a question of mutual interest and leadership.

Four points for the future:

1. Let's make the WTO negotiations on financial services a success. Everyone will benefit from that. It will need teamwork between the EU and the US.
2. Let's help the emerging powers to establish up-to-date regulatory structures and rules – a much better way to ensure stability and fairness than by locking doors or bolting the exits.

3. Let's improve international structures and standard setters to help devise rules that work for business. Standard makers who listen – and apply what I call the better regulation agenda – including looking at the economic impact of their work.
4. Let's also move beyond a pure trade agenda. The EU and US regulatory Dialogue shows that cooperation works. I'm no Maoist, but let a thousand forms of global economic cooperation bloom. Between regulators, between Parliaments. Between trading blocks and countries. The way forward is not some harmonized global superstructure but practical, issue driven cooperation that achieves results.

Conclusion

Ladies and Gentleman, we are at a point where we have to make a choice between charting a bold economic future – or harking back to the past. Do we make the most of a globalizing world by opening to the new opportunities? Or do we give in to scaremongering? It is the type of choice your Founding Fathers made – and early settlers took.

Of course there are legitimate concerns. Of course there is a need for sound governance, reliable rules which are developed for a global marketplace.

But there is also the need for leadership and strength to defend open markets. We all have much to do. What the people in the EU, the US and elsewhere want most is economic prosperity and new opportunities in a peaceful world. The way to achieve this is to keep on opening markets and societies by encouraging co-operation and market integration in the EU, in the US, across the Atlantic and beyond.