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Competitiveness and growth in the EU through the development of an integrated capital market and banking system

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

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Introduction

Chairman, Ladies and Gentleman, fellow panelists

Thank you for inviting me to address this important and prestigious meeting. Many talk about a globalised world economy. Your Institute is a truly globalised institution. I admire very much the contribution you make to promote the efficiency, transparency, stability and competitiveness of the global financial system. When countries move together economically there is an evident need for better information and closer cooperation between governments, supervisors and regulators. And that is what is happening.

In my presentation today I would first like to talk about the contribution the financial sector can make to increased growth and competitiveness in Europe. I would then like to sketch out our financial services agenda for the coming years, including our policies for international cooperation.

The role of the financial sector for growth and competitiveness in Europe

Europe is faced with a number of tough challenges: we have to increase our competitiveness, our growth rate and our employment levels. We have to become more innovative; more entrepreneurial; and we have to find ways to deal with an ageing population and the strains that this will put on our pension and health systems. We have to be able to confront the massive increase in global competition coming our way – from China, India and many others.

For all these challenges a strong and dynamic financial sector is key. Deep, liquid and innovative capital markets provide companies with the means to invest and grow. They offer the funds that can turn new ideas into successful products and business models. Efficient markets also offer higher returns on funds and can thereby make a direct contribution to solving our pension problem. Healthy competition across national borders is good for companies and the consumer: it spurs innovation; creativity; it increases competitiveness, it reduces prices at the wholesale and retail level and it brings bigger choice and better service to the consumer.

For a long time, Europe's financial companies and institutions have been competing with one arm tied behind their backs. Different regulation in every member state of the EU; differing supervisory and prudential regimes; deep-rooted obstacles to the cross-border offer of securities; overlapping or even conflicting rules on the conduct of business: all this useless bureaucracy and these barriers kept the financial sector from achieving its full potential and from producing optimal benefits for our economies.

Financial Services Integration

In 1999 the Commission set out to cut those ties and harness the benefits of integrated deep, liquid financial markets with the Financial Services Action Plan. Since then we have come a long way. European financial market integration is underway in many sectors: in the wholesale markets; in stock exchanges; and in the financial markets infrastructure, such as clearing and settlement. Markets have already become more liquid, capital is being allocated more rationally. There is more freedom for investors and consumers. Markets are becoming more European in scope and in reflex.

European companies have adjusted to a more European constellation. Their recent reported profits are higher than ever. At the same time consumers are being offered more competitive prices. This shows that market integration and competition is good for all participants – with the evident implication that the productivity of capital in the EU is improving.

The way forward

Where do we go from here? Over the last 18 months the Commission has invested much time in bringing together the views of all market participants. We commissioned reports from four expert groups on banking, insurance, securities and asset management. In these areas, we have the most open policy making in the Commission – which is a strength in every respect.

I have picked up two messages from the consultation: Our job is far from finished. And now we have to shift our focus.

We are now entering a phase where consolidation will be the focus of our attention. We have to make every effort to ensure that the European rules we have passed with so much sweat and effort will be effectively transposed into national law. We have to encourage the supervisory authorities to rigorously enforce these rules. We will continuously monitor the application of the new rules and evaluate their economic impact.

Unfinished business

At the same time we have received widespread support to tie up the loose ends and to complete unfinished business. Therefore we will go on working and completing our efforts on Capital Requirements, Reinsurance, Solvency II, and the Legal Framework for Payments. And we will drive forward the sensible and well supported corporate governance, company law, accounting and auditing agenda that is so widely supported by European industry.

Better regulation, implementation and enforcement

In bringing forward new initiatives, all proposals will be subject to rigorous impact assessment and we will continue our extensive consultation approach. It is already clear we will only come forward with few new initiatives.

I believe that "innovation always has to front-run legislation". It is economic freedom that lets markets best play their role: to experiment and to come up with new ideas, better products and more streamlined processes.

Legislation has to help, not hinder, this process. At the same time it also has a crucial role to play. Without legal certainty, without reliable information, without clear framework rules markets cannot work for long. This is especially true for financial markets which to a large extent are based on trust. When trust is undermined by the actions of individual players, everyone suffers. It is for this reason that everyone benefits from a stable, reliable and transparent regulatory environment. The FSAP has delivered this and we should now build on the good work done.

However, although the Commission has tried to keep the FSAP framework simple, there is room for improvement. We will look at more consistency and coherence.

We also need to ensure that the European supervisory system keeps up with the integrating European markets. The Commission believes for the time being we need to take an evolutionary approach here. Through the Lamfalussy system we will improve cooperation between national supervisors and reduce supervisory overlap and duplication. We have to gain experience with this system first and clearly identify areas of conflict before we think about any new orientations.

New challenges

Let me address two new challenges we are faced with: integration in retail financial markets and international regulatory and supervisory cooperation.

Retail Financial Services

There is consensus that retail financial services have not yet shown sufficient drive towards integration. The focus of the last few years was – rightfully so – on the wholesale markets. This was where the fruits of integration where hanging lowest and therefore we picked them first.

But we cannot afford to leave the huge potential of the retail markets untapped any longer. There are 450 million consumers in the European Union. There is plenty of opportunity for growth and for new jobs.

During my term as Finance Minister in Ireland I gained a valuable insight into the huge benefits to be gained from opening up markets. The virtuous circle that is Ireland's economy today, is to a large extent due to more competitive, more open markets. The benefits will be so much greater if we can achieve this across the whole of Europe.

Consumers should be able to shop across borders without running into outdated regulatory obstacles. At the same time, we want to enhance the opportunities for European financial institutions to offer their products and services on a cross-border basis or locally through branches and intermediaries.

But let me assure you, we are not going to base our policy on the Wild West and the survival of the fittest in the Last Chance Saloon. We will come forward with ideas in our Green Paper on our future strategy in financial services due to be published in May. Again, there will be open consultation and rigorous economic testing. We might introduce forum groups to look into barriers for specific products.

International regulatory and supervisory cooperation

The second challenge I want to address is the need for stronger international cooperation.

The Institute of International Finance was created in 1983 in response to the international debt crises. In a very similar way the Commission changed its approach to cooperation with other legislators and regulators worldwide after recent corporate scandals. The US Sarbanes-Oxley Act that was passed in the wake of Enron and Worldcom showed that it is not just the economic scandals themselves that send shockwaves through the whole global economic system. More and more, the legislative and regulatory responses to those scandals also have a global impact. Cooperation between legislators and supervisors urgently needs to catch up with the integration of the markets.

This has led us to strongly intensify the cooperation with our US counterparts and will continue doing so. By working closely with the Public Company Accounting Oversight Board (PCAOB) and the SEC on the basis of a cooperative framework we have been able to defuse many of the initial difficulties arising from the Sarbanes-Oxley Act. The US authorities have broadly accepted the equivalence of the approach of EU Member States' audit requirements. According to the Sarbanes-Oxley Act all US-listed companies must assess and vouch for the effectiveness of their internal control mechanisms. The Chairman of the SEC, William Donaldson, has now postponed the date of application for foreign issuers. This is an important and helpful step forward.

But much remains to be done. Just to take one example: Since the beginning of this year, two major sets of standards are being applied globally: US GAAP and International Accounting and Financial Reporting Standards, which are being applied by listed European companies since the beginning of this year. We have to find a way to free businesses which are active on both sides of the Atlantic from the costly requirement to publish their accounts according to both sets of rules and then having to square them up.

Up to now, US companies listed in Europe were able to publish their accounts in US GAAP. Under our new Prospectus and Transparency Directives, we must come to a decision about the equivalence of US GAAP to allow them to continue to publish their accounts in US GAAP. The Commission will base its decision on a technical report by Committee of European Securities' Regulators due in the summer.

But this is not a one-way street – it is only reasonable for European companies to expect that US regulators will make similar efforts to judge the equivalence of our international standards with US GAAP, and once this is done, to release companies from the costly burdens of converting standards. We intend to work closely with the SEC and standard setters to find a mutually acceptable road map through this problem. I will be visiting the US in the second half of April and I am looking forward to having talks with the SEC on this subject. I think it is about time that we come to an agreement on a framework and a timetable. This would be good for business on both sides of the Atlantic.

Conclusion

Chairman, ladies and gentlemen, fellow panelists, let me conclude:

Europe is on track in integrating its financial markets. We have come a good part of the way already. The FSAP has delivered tangible results, Europe's financial markets are becoming more competitive and better functioning.

We are now entering a new phase: We will not shy away from new challenges. But the watchword will be consolidation and improving the efficiency of our regulatory and supervisory processes. We will work with our partners in the US and other countries to improve global cooperation and to improve the regulatory framework for the global economy.