

**Charlie McCREEVY**

European Commissioner for Internal Market and Services

## **Opening Address**

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

Federation of European Securities Exchanges

**Brussels, 26 May 2005**

## Introductory remarks

Thank you Madam Moderator and distinguished delegates.

I am delighted to be here today to address this distinguished audience at a time when the securities markets are the subject of intense focus.

Getting the regulatory framework right for the safe and efficient operation of securities markets in Europe – and to ensure that investor confidence in them is maintained – must clearly be a key part of our overall programme to strengthen the overall growth potential of the European economy.

You have an interesting agenda before you for fruitful and vigorous debate. I will be particularly interested to hear of the outcome of the debate scheduled for tomorrow afternoon, on whether shareholders should have the right to vote on corporate acquisitions. As well as enlivening the post-lunch Friday afternoon slot, this debate will address a question which is obviously topical right now, in the light of the controversy about the Deutsche Börse and its influential shareholders. While there *are* legitimate questions about holding periods and the like, we should keep in mind that the overarching framework of the treaties and the *acquis* underwrites freedom of movement of capital throughout the Union. This *must* involve freedom for funds, firms, citizens and even regulated markets in one Member State to invest in those in other Member States. There can be no treating of the out-of-state investor as a second-class investor. Indeed, as you will know, we have very recently published proposals designed to enhance the relative position of shareholders across borders. These proposals, which are open for consultation, deserve close scrutiny. They address questions such as proxy voting, the rights of depositaries, notice of general meetings, and other arrangements.

You will also perhaps at this stage have had an opportunity to review our recently published Green Paper on Financial Services Policy. As is set out there, we have achieved a lot. But now we need to maximise the potential of the framework set in place by the FSAP, by focusing on effective implementation and enforcement. And we have some other unfinished business as well need to finish unfinished business as well – specifically our initiatives on clearing and settlement, on Solvency II, Basle II, on payment systems, and of course on implementing the Markets in Financial Instruments Directive.

That last body of work will no doubt keep many of you occupied for some time to come. Certainly the Level 2 MiFID process still has some time to run. Turning CESR advice into Level 2 legal text is not a straightforward process, particularly in the current environment where our emphasis is very much on principles-based regulation wherever possible. We expect to work with the European Securities Committee on this task throughout this year. We also expect to bring forward our proposal for delay to the MiFID start date very soon. Assuming it is agreed by the Council and Parliament, this will of course deliver an extra six months to Member States for transposition, and an extra six months to firms for implementation, with a final start date of 30 April 2007.

But let me also repeat here what I have said often. I want better regulation. Economic evidence-based regulation. Regulation that will create, not destroy jobs. Light touch; the essentials; not pretty legalese or complexity for the sake of it. So we are looking very carefully at all aspects of this and pairing things back to the minimum necessary to achieve our goals.

## **Consistent implementation of FSAP measures, including accounting standards**

Let me turn now to the topic of consistent implementation of the FSAP measures. As you know, I am putting strong emphasis on working with Member States to ensure the timely and coherent implementation of the measures that are already in place, as well as those still being finalised such as MiFID Level 2. This is crucial in order to avoid a re-fragmentation of the internal market or a dilution of what has already been achieved. We must avoid divergent, selective or partial interpretations of Community law. Just last week we published transposition updates for the FSAP. Unfortunately, as a whole, that table continues to show unacceptable implementation delays, including in some of the largest economies.

Another important example of the need for consistent application of EU law is in relation to International Accounting Standards, or International Financial Reporting Standards as they are now called. As you will know, all listed EU companies will, as from this year, use International Financial Reporting Standards for their consolidated accounts.

The main question in the medium term will be how to ensure consistent application of IFRS within Europe. This is crucial, to have a uniform set of standards and not effectively 25 national standards in place. It is also crucial to the objective of removal of the US GAAP reconciliation. A number of proposals are being considered, including one for a “European Forum” consisting of interested parties, regulators, standard setters, preparers and auditors in their peer groups. The forum would be tasked with promoting consistent application.

But we do not want to add layers of interpreting bodies. International Accounting Standards are principles-based and should remain so. I see the chief advantage of a possible European Forum in identifying and analysing issues, acting as a filter and thus allowing the International Financial Reporting Interpretation Committee to concentrate on the key issues requiring their attention.

The European Commission has always been a strong advocate of global standards – not just for accounting but also for auditing. While IFRS is the basis for a true global standard we must recognise the role US GAAP plays in the largest capital market in the world, i.e. the US. We do not necessarily need to apply exactly the same accounting standards, but differences should be narrowed down to such an extent that we can at least recognise each other’s standards as equivalent. The world is moving towards IFRS – so this convergence issue is a key nut to crack.

For investors, convergence and equivalence would make it easier to compare the performance of companies and make better investment decisions. Equivalence will also further the integration of global financial markets and thereby promote economic growth and prosperity – not just in the EU but globally. I am encouraged by the results of my recent visit to the US. In particular I had a very helpful meeting with SEC Chairman, Bill Donaldson.

## **Risk capital**

I also want to emphasise today the importance the Commission places on getting risk capital right for the EU, as part of the jobs and growth agenda. Risk capital is strategically important in the context of the Lisbon Agenda, being essential for promoting entrepreneurship and for fostering innovation. I want to start by quoting a couple of statistics. They show we have a lot of ground to make up on our friends and competitors across the Atlantic.

Over the period 1997-2003, VC investment in the US totalled close to €220 billion at today's exchange rates, compared to only around €78 billion in Western Europe. Although the average size of the (private equity) buyout market is comparable to that of the US market, US venture capital is still more than twice the size of that of the EU. Entrepreneurship is driven by venture capital – the US market knows this. So we have a lot of catching-up to do, even if our competitors only stand still.

So what is the Commission doing to improve this picture? Vice-President Verheugen recently launched our €4 billion 2007-13 Competitiveness and Innovation Programme. This will give a shot in the arm to innovation, particularly in information technology, energy and ecology. The programme introduces a new risk capital instrument for High Growth and Innovative Companies (GIF2). And it seeks to promote securitisation of banks' SME loan portfolios.

In the shorter term, we will act to organise together with the UK Presidency a conference on venture capital on 4 and 5 October this year in London. Based on our dialogue with the stakeholders and on the results of the conference, we will publish a Communication on access to finance thereafter.

But we also need to reduce market fragmentation. The European venture capital markets are functioning along national lines. I recognise that much of venture capital is local, focusing on companies in the region of the fund. But major European private equity managers are also active outside their own domestic marketplace, not only raising funds from investors in different regions but also running teams of executives in various European centres and investing across the region. Currently there is no common EU framework for structuring private equity and venture capital funds such that they can be easily marketed across borders, or such that funds can easily invest in target companies located in different Member States. This is partly due to different national legal and tax regimes, but if venture capital markets are to evolve and fulfil their potential in Europe, serious thought needs to be given to how we can remove unnecessary barriers to cross border fund raising and investment.

The Commission is currently working with the industry to study the possibilities for finding appropriate European models for efficient cross-border venture capital fund structures. Moreover, we will shortly be publishing a Green Paper on Asset Management. This consultation will highlight some of the difficulties in establishing, raising and operating investment funds on a cross border basis. It will launch a debate on whether we need to act at a European level to facilitate investors' access to non-harmonised investment products, which includes private equity vehicles, and the extent to which a common understanding of 'private placement' could facilitate their cross-border offer to qualified investors.

However, an efficient environment for pan European fundraising is only part of the challenge. The high-growth stock markets in Europe do not currently provide sufficient liquidity for investors, or the necessary listing volume for services to develop to their full potential. As a first step we are studying this issue and aim to identify good practices on cross-border stock exchange operations. We are also working with the US Department of Commerce to help the industry in this by recommending the adoption of global good practices with regard to industry definitions and company and portfolio valuations.

We think the European growth stock markets are still too small and illiquid to sustain significant trading and investment. For instance, there are currently over 20 dedicated growth company markets in Europe, against just one in the US. Even so, there is still no comparison between the combined European market and NASDAQ, where the market capitalisation is over \$3 trillion.

A pan-European growth market would improve the access of growth companies to capital because it would increase liquidity for both investors and entrepreneurs. But for all our prompting, all our encouragement, it is the market itself that needs to make this a reality.

### **Credit rating agencies**

The regulation of credit rating agencies has been an important topic on the regulatory agenda since the Enron scandal. Following a call from Parliament's Committee on Economic and Monetary Affairs, the Commission made a commitment to analyse the issue.

The European regime regulating these agencies is the Market Abuse Directive (2003/6/EC). The Directive applies to the handling of inside information. But it also potentially applies to the accurateness of credit ratings. This is because dissemination of false or misleading signals can constitute market manipulation, whether or not the firm disseminating the information is an investment firm.

Last summer the Commission asked CESR for technical advice on possible regulatory measures specifically concerning ratings agencies. CESR delivered this technical advice at the end of March 2005. CESR concluded that, as a supplement to the rules of the Market Abuse Directive, the substance of the Code of Conduct Fundamentals newly issued by the International Organisation of Securities Commissioners would be the right answer to the issues raised by the Commission. However, there was no consensus on the enforcement aspect of the IOSCO Code.

Having received CESR's technical advice, we intend to move forward on this issue. The Commission will not introduce new rules now. We will however produce a Communication clarifying the application of the Market Abuse Directive and the IOSCO standards in this area. We will request CESR to monitor and report on the application of the IOSCO standards by CRAs in practice. Failing appropriate action to conform to the standards by CRAs, we may need to consider further legislation. We might impolitely refer to this as the carrot-and-stick approach to regulation.

The role of the ratings agencies will become increasingly important in the light of the Capital Requirements Directive, which is of course how we will implement the Basel II agreement in Europe. The Directive doesn't actually talk about ratings or rating agencies. It talks about credit assessments produced by external credit assessment institutions or 'ECAIs'. The assessments produced by ECAIs are used to feed into capital requirements but only once supervisors have satisfied themselves that the way the ECAI produces assessments is adequate. The Directive sets out standards for supervisors to use in making this decision and the Committee of European Banking Supervisors is working to ensure that this process is implemented in a consistent way across the EU.

The assessments from ECAIs feed into capital requirements in two ways. Firstly, for firms that adopt the Standardised Approach for credit risk, credit assessments from ECAIs are one key factor in determining many capital requirements. This applies to exposures to corporates, to central governments, central banks and so on, but not to retail lending and mortgages. Secondly, the CRD treatment of securitisation makes extensive use of credit assessments from ECAIs, again as you might expect given the importance of external ratings in the securitisation market.

It is clear that this new capital framework does increase the importance of rating agencies, or ECAs, from a supervisory perspective. But there is also a clear process for making decisions on whether a rating agency carries out its work in an appropriate manner to be recognised for supervisory capital purposes. Viewed from the perspective of the CRD, there is no need to go further in the regulation of rating agencies at this stage.

### **Consultation and impact assessment; clearing and settlement**

I will close by talking about a topic which is becoming dear to regulators' hearts, but which can be a mixed blessing for stakeholders, and that is consultation and impact assessment. It is becoming dear to our hearts because stakeholders have, quite rightly, insisted that better account be taken of their concerns, including on costs and benefits, before changing the rules of the game. It can be a mixed blessing because with greater consultation and the greater need for hard data by regulators, comes a corresponding increase in the demands on stakeholders' time, resources and systems. So we very much appreciate the great levels of co-operation that all stakeholders, including you here today, have shown and continue to show in getting the FSAP measures in place.

We at the Commission have done some housekeeping of our own, in order to streamline and re-focus the impact assessment framework. We will continue to address the broad range of economic, social and environmental impacts in our proposals where they are relevant.

Clearing and Settlement is probably the most pertinent area where our dual commitment to ongoing consultation and thorough impact assessment is being thoroughly applied.

As for ongoing consultation, the Commission consulted the industry extensively in light of the Communication adopted on 28<sup>th</sup> April 2004. More than 80 replies were received and recently a summary of them has been published by the Commission. Furthermore, following adoption of this communication, the Commission set up three stakeholders' monitoring and advisory groups dealing, respectively, with business (CESAME group), legal (Legal Certainty Group) and fiscal issues (FISCO group). The CESAME group, for example, which monitors market-led efforts to increase integration of the clearing and settlement industry in the EU, has rapidly assumed importance in this area and is proving rather effective in dovetailing efforts to remove or reduce cross-border barriers to business.

As for the impact assessment, major work is under way. Clearing and settlement costs are a fundamental part of the financial markets' transaction costs. A more efficient clearing and settlement industry in the EU would reduce such costs, increasing liquidity and in this way lead to higher growth for the EU economy. The impact assessment essentially responds to two questions:

- 1) How big are these costs for Europe? Are the missing benefits due to the lack of integration of the EU clearing and settlement systems impinging on EU growth?
- 2) What action, legislative or otherwise, is more likely to deliver part or all of these missing benefits? Are they material? How would costs and benefit of the possible options be distributed?

To respond to those two questions, the impact assessment:

- reviews and, as much as possible, makes use of the existing literature and of the already existing reports (such as the Giovannini reports);
- uses all internally available expertise within the Commission: 6 of our Directorates have been involved; and
- takes into account comments from and discussion with all stakeholders, including the working groups and market participants.

Upon completion of the work I expect we will have the necessary knowledge-base to come to informed judgements on the best way forward by the first half of 2006.

## **Conclusion**

I hope I have shown you today that, while the pace of reform of our securities markets must inevitably slacken because of the completion of the FSAP, and of our new emphasis on impact assessment, there are still a bewildering range of challenges facing us. But I am confident that, with the continued co-operation of your very important sector, together of course with other stakeholders, the Member States and the Institutions, we can together continue to build a more competitive, vibrant and integrated European capital market.

And we must succeed. We all know the economic prize is very substantial. If we can strengthen our European economy, and we must, we will also strengthen European integration in the process. More will believe in the role of the Union as a positive force for progress. Thereby enhancing the European Union – perhaps the greatest political and economic integration project in history.

Finally, let me congratulate Judith Hardt on her elevation to the post of Secretary-General of FESE and wish her every success in her new role. Her predecessor Paul Ariman has made a great contribution to the process of European financial integration. He has been a tremendous enthusiast, questioning, thirsting, thrusting and imaginative. Don't go far Paul – we are particularly generous at the Commission at paying quality people like you nothing to help the noble cause. So please be on call!

Ladies and Gentlemen, thank you very much indeed.